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THE IMPACT OF F.O.B. MILL PRICING ON MARYLAND MANUFACTURERS

MARYLAND STATE PLANNING COMMISSION
NOVEMBER 1949

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SURVEY

of

THE IMPACT OF F.O.B. MILL PRICING

on

MARYLAND MANUFACTURERS

MARYLAND STATE PLANNING COMMISSION

NOVEMBER 1949

MARYLAND STATE PLANNING COMMISSION
100 Equitable Building
Baltimore 2, Maryland

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November 28, 1949

Honorable Wm. Preston Lane, Jr.
Governor of Maryland
Annapolis, Maryland

Dear Governor Lane:

I am pleased to transmit herewith the report of the Commission's "Survey of the Impact of F.O.B. Mill Pricing on Maryland Manufacturers."

The survey was carried out by the Commission Staff to ascertain the prevalence of basing-point practices in the State and to determine whether a shift to f.o.b. mill pricing would have a salutary or disastrous effect on Maryland's economy. To answer these basic questions the Commission initiated a survey of 1,000 manufacturers in the State, whose replies to questionnaires and personal interviews are presented in the report.

The problem of changes in the pricing system was brought to a head by the Supreme Court's decisions of last year, which in many instances outlawed the use of base prices. Because of the potential effects of these decisions on some of the State's largest producers, it was incumbent on the Commission to discover what consequences might be expected if Maryland industry were obliged to adopt a system of uniform f.o.b. mill pricing.

As you will note in the report, the anticipated effects of the changeover will be not deleterious to the State's economy. On the contrary, it is possible that the Greater Baltimore Area will prosper by the shift, because f.o.b. mill pricing places Maryland's iron and steel industry in a favored position in respect to its current and prospective markets.

I know you will join me in thanking the manufacturers of Maryland as a group for their keen interest and extensive cooperation in the completion of this survey.

Very truly yours,

I. Alvin Pasarew

I. Alvin Pasarew
Director

ACKNOWLEDGMENTS

While it is not possible to list the names of all persons and agencies, local, county, State, and Federal, who generously contributed information and suggestions for this study, the Commission would like to thank them as a group, and at the same time extend a special note of appreciation to the following persons and agencies who during the summer of 1949 gave direct aid in the development of this staff study: Mr. John Weber, District Manager, Baltimore Field Office, Department of Commerce; Mrs. Margaret W. Kimble, Deputy Commissioner, Department of Labor and Industry; Professor G. H. Evans, Jr., Chairman, Department of Political Economy, The Johns Hopkins University; Dr. Fritz Machlup, Hutzler Professor of Political Economy, The Johns Hopkins University; Mr. Howard M. Smith, Chairman, Cumberland Industrial Promotion Committee; Mr. R. J. Beggs, General Freight Agent, Traffic Department, Baltimore and Ohio Railroad Company; Mr. Gladys N. McDermott, Labor Market Analyst, Department of Employment Security; Dr. Alfred C. Neal, Vice President and Director of Research, Federal Reserve Bank of Boston; Professor Charles A. Bliss, Graduate School of Business Administration, Harvard University; as well as the many Maryland manufacturers who gave so generously of their time and interest in responding to our questionnaires and personal interviews. The study was carried out by Ray S. Kelley, Jr., Research Analyst, under the supervision of I. Alvin Pasarew, Director and Mrs. Shirley F. Weiss, Economist.

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INTRODUCTION

In April 1948 the Supreme Court declared the basing-point system for cement to be a form of unfair competition and to involve unlawful discrimination. 1/ Shortly thereafter, in the Conduit Case 2/ the Circuit Court of Appeals declared that the individual use of the basing-point system with the knowledge that competitors use it is also unfair competition and unlawful discrimination. Many businessmen warned of disaster and ruin for them, of higher prices to consumers, and of a giant wave of unemployment. Various sections of the country feared serious repercussions and, in many instances, local studies were initiated to explore the issue.

One of the chief reasons for the fears held by so many was the confusion surrounding the issue. Today, over nineteen months after the Cement Case decision, the confusion still predominates. For this reason, the State Planning Commission has undertaken to examine the problem as it relates to Maryland industry. The report which follows attempts to explain, in simple terms, the basing-point system and various similar pricing methods, and the probable results of a compulsory change to f.o.b. mill pricing on Maryland's economic welfare.

The study is chiefly interested in the Maryland Economy, but many of the results may be extended to cover the United States as a whole.

Briefly, the outline followed is:

a) Description of the basing-point, zone, and other pricing methods (Ch. 1).

b) A short history of the basing-point and zone systems (Ch. 2).

c) Maryland's industrial pattern (Ch. 3).

d) The probable effect on Maryland manufacturers of a compulsory change to f.o.b. mill pricing (Ch. 4-8).

1/ F.T.C. v. The Cement Institute 333 U.S. 683 (1948), 68 S. Ct. 793,807.

2/ 168F2d 175 (1948).

CHAPTER I

DEFINITIONS AND DESCRIPTION

Before describing the basing-point system, with its pros and cons, it is imperative that the phraseology used in the study be grasped. The definitions of terms are not the author's, but rather, are those most widely accepted in trading circles. The terms defined below will be used throughout the discussion. 1/

Uniform Prices vs. Identical Prices

There is a great deal of difference between the terms "uniform prices" and "identical prices." In the former case one seller offers his product at the same price to all buyers wherever located. That is, when a single seller offers all buyers a product at the same price, he is said to quote a uniform price for his product.

If every seller, however, quotes the same price to one buyer the sellers have quoted identical prices.

Delivered Prices, F.O.B. Mill Prices, and Mill Net Prices

The price a buyer pays for a product delivered to him is referred to as the delivered price. The price a buyer pays at the mill is the f.o.b. mill price. The price the seller receives for his product, after deducting freight charges incurred in transporting his product to the buyer, is the mill net price. Only when the buyer is located at the seller's mill are the delivered, f.o.b. mill, and mill net prices equal.

Uniform Delivered, Uniform F.O.B. Mill, Identical Delivered, and Identical F.O.B. Mill Prices

If a seller quotes uniform delivered prices to all potential or actual buyers, he quotes the same price regardless of the buyers' locations,

---

1/ The author has relied heavily on Professor Fritz Machlup's The Basing-point System, Philadelphia, Blakiston Company, 1949, for the definitions, as well as many other details used in this report.

If a seller quotes uniform f.o.b. mill prices, he quotes, to every potential or actual buyer, the same price at his (the seller's) mill.

A seller, quoting uniform delivered prices, often will receive different mill prices because the freight charges usually differ in shipments to various buyers. When he quotes uniform f.o.b. mill prices, the seller's mill net price will also be uniform. In other words, the term uniform f.o.b. mill prices is analogous to uniform mill net prices.

If a buyer is quoted identical delivered prices, he is offered a product at the same delivered price by all sellers. If a buyer is quoted identical f.o.b. mill prices, he is offered a product at the same price by all sellers at the sellers' mills.

It is possible that sellers may quote identical and uniform f.o.b. mill prices at the same time, as well as quote identical and uniform delivered prices simultaneously. Only when all sellers are located at the same point could f.o.b. mill and delivered prices be both uniform and identical.

Often the terms "freight allowed" and "freight equalization" are used in speaking of pricing methods, but they are merely synonyms for other terms mentioned above. Freight allowed is identical to uniform delivered prices, while freight equalization means the same as identical delivered prices.

Base Point and Base Price

Under a basing-point system, which will be treated later in this chapter, a mill, usually older or larger than the others, announces a selling price per unit of product f.o.b. mill. If the other mills announce that they will meet the delivered prices quoted by their competitor, this mill becomes a "base mill" and the price announced, per unit of product f.o.b.

this mill, is a "base price." If no other firm announces base prices, this means that the location of the first mill is a single basing point used for calculating identical delivered prices for each destination. All firms merely add to the announced base price the freight rate from the basing point to the destination.

If other firms announce base prices for their mills, while all firms continue to meet the lowest competitor's price, a multiple basing-point system results. Each basing point is used only for those destinations for which the sum of its base price and the freight rate are lower than the corresponding sums calculated for other basing points.

Freight Absorption and Phantom Freight

Two other terms which will be used often in the discussion are "freight absorption" and "phantom freight." Freight absorption implies that a seller quotes to a buyer a delivered price for a product which is lower than the sum of the seller's base price plus the actual cost for transportation charges to the buyer. On the other hand, a seller is said to collect phantom freight when he charges a delivered price which is higher than the sum of the seller's base price plus the actual cost of transportation.

Numerical Example to Clarify Definitions

Before describing the basing-point system it may be well to clarify these definitions by means of a numerical example. This same example will be used in discussing the basing-point system.

A few simplifying assumptions are made in the example. First, all sellers, X, Y, and Z, produce a homogeneous product so that buyers at points A, B, and C, are governed in their purchases only by price. Second, all shipments are made by rail, and can only be made along the lines connecting

the various points in Diagram I. Third, the transportation charges are proportional to distance.' That is, a two-mile haul would cost twice as much as a one-mile haul, a 50-mile haul would cost five times as much as a 10-mile haul, and so on. In our diagram the transportation charge per ton of the product is 10¢ per mile. These simplifications are used only for exposition and will not be used to draw any conclusions.

Uniform Delivered Prices

Seller at X quotes a uniform delivered price of $50 per ton:

Destination	Price Delivered	Freight Charge	Price Mill Net
A	$50	$10	$40
B	50	5	45
C	50	20	30

Uniform F.O.B. Prices

Seller at X quotes a uniform f.o.b. mill price of $50 per ton:

Destination	Price F.O.B. Mill	Freight Charge	Price Delivered
A	$50	$10	$60
B	50	5	55
C	50	20	70

Identical F.O.B. Mill Prices

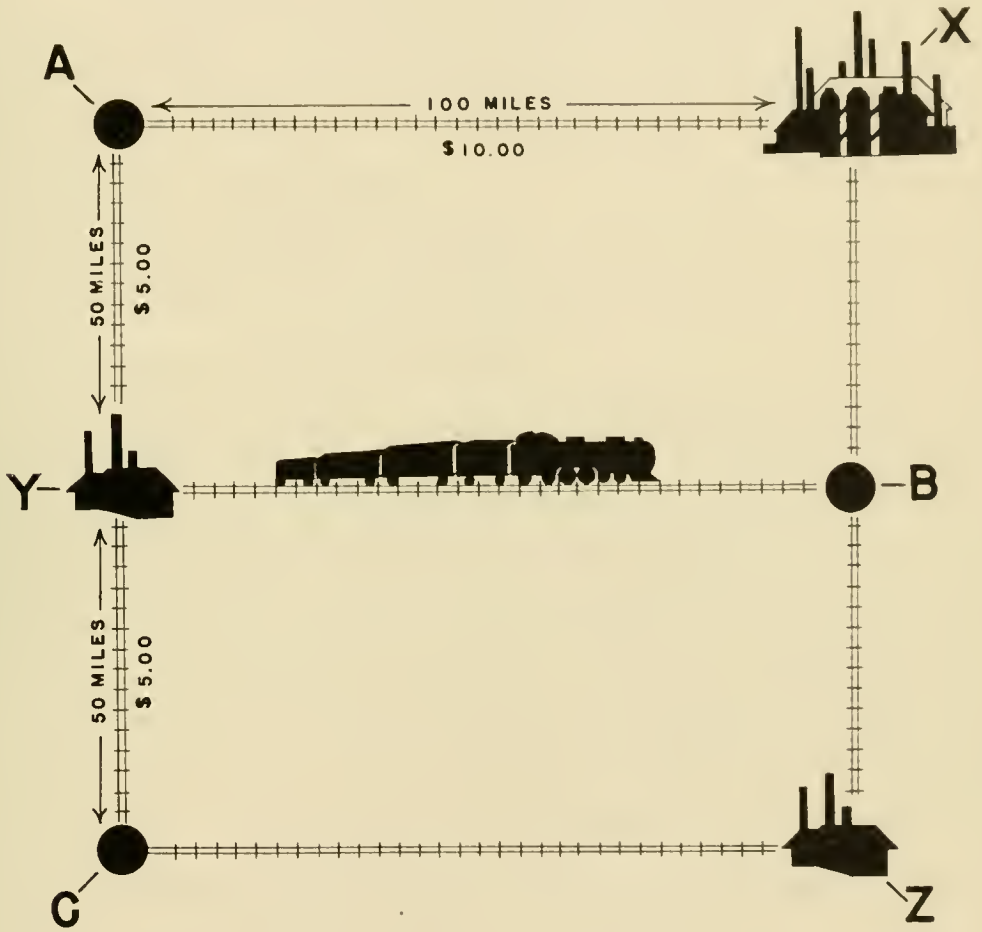
Sellers at X, Y, and Z quote identical f.o.b. mill prices of $50. Buyers at A would calculate:

Origin	Price F.O.B. Mill	Freight Charge	Delivered Price
X	$50	$10	$60
Y	50	5	55
Z	50	20	70

Buyers at B would calculate:

Origin	Price F.O.B. Mill	Freight Charge	Delivered Price
X	$50	$ 5	$55
Y	50	10	60
Z	50	5	55

DIAGRAM I



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Buyers at C would calculate:

Origin	Price F.O.B. Mill	Freight Charge	Delivered Price
X	$50	$20	$70
Y	50	5	55
Z	50	10	60

Identical Delivered Prices

This case, sometimes called the freight-equalization method, becomes more complicated. There are four types of systems used to obtain identical delivered prices:

a) The zone pricing method

b) The single basing-point method

c) The multiple basing-point method

d) The plenary basing-point method

The Zone Price System. The simplest type of zone pricing is the "postage-stamp" system, which receives its name from the postal system. A three-cent stamp, for example, will carry a letter anywhere in the United States, so the United States becomes a three-cent zone for first-class mail. The same system is used for chewing gum, which is generally five cents anywhere in the United States. In other words, the manufacturer quotes uniform delivered prices. In zone pricing all manufacturers quote the same uniform delivered price, which results in identical delivered prices.

Another type of zone pricing is the multi-zone method of arriving at identical delivered prices. In this case the market would be broken into two or more zones; the delivered price to buyers located in the same zone would be the same, but buyers located in different zones would pay different delivered prices. If all manufacturers set the same price in any one zone, the result would be identical delivered prices. In this case, however, the mills would not sell on a uniform delivered price basis, since prices vary

from zone to zone. This system is used largely by the paper industry.

Diagram II is a map of the United States divided into five zones. The zoning frontiers shown do not represent actual conditions, but are purely illustrative. A customer of the product thus zoned would pay $63.00 per unit of the product anywhere in zone 3 regardless of whether he bought from firm X, Y, or Z. A buyer on the West Coast would pay $75.00, while a New England buyer would pay $50.00, no matter from what mill the shipment was made.

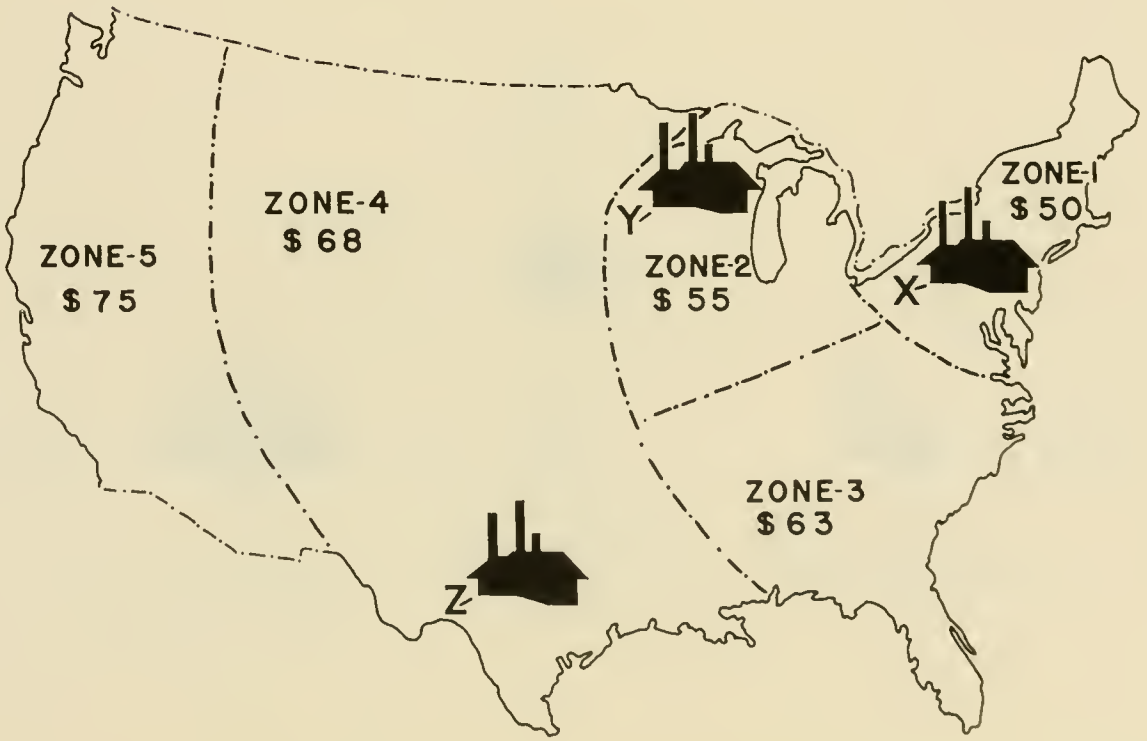
The Single Basing-Point Method. In order to simplify the discussion of the basing-point system the same assumptions used previously will be observed, namely, all producers sell a homogeneous product, all shipments are made by rail, and all freight charges are proportional to distance. These assumptions will be dropped in the more complex cases.

In Diagram III a simple case of the single basing-point system is shown. There is only one buyer, point A, but three sellers, base mill X; non-base mill Y; and non-base mill Z. X has established itself as a base by announcing a base price of $50.00, and having Y and Z announce that they will match his delivered price at any point. The delivered price is then calculated by adding to X's base price the transportation cost by rail to the buyer. Thus, in Diagram III the price at point A will be $55.00 regardless of the origin of the shipment. In this way identical delivered prices are quoted at point A by mills X, Y, and Z.

The mill net prices can now be calculated by subtracting the transportation charge from the delivered price, as follows:

From:	X	Y	Z
Delivered Price at A	$55.00	$55.00	$55.00
- Freight Cost	5.00	7.00	3.00
= Mill Net Price	$50.00	$48.00	$52.00

DIAGRAM II



NOTE:
ZONING FRONTIERS ARE SHOWN FOR
ILLUSTRATIVE PURPOSES ONLY

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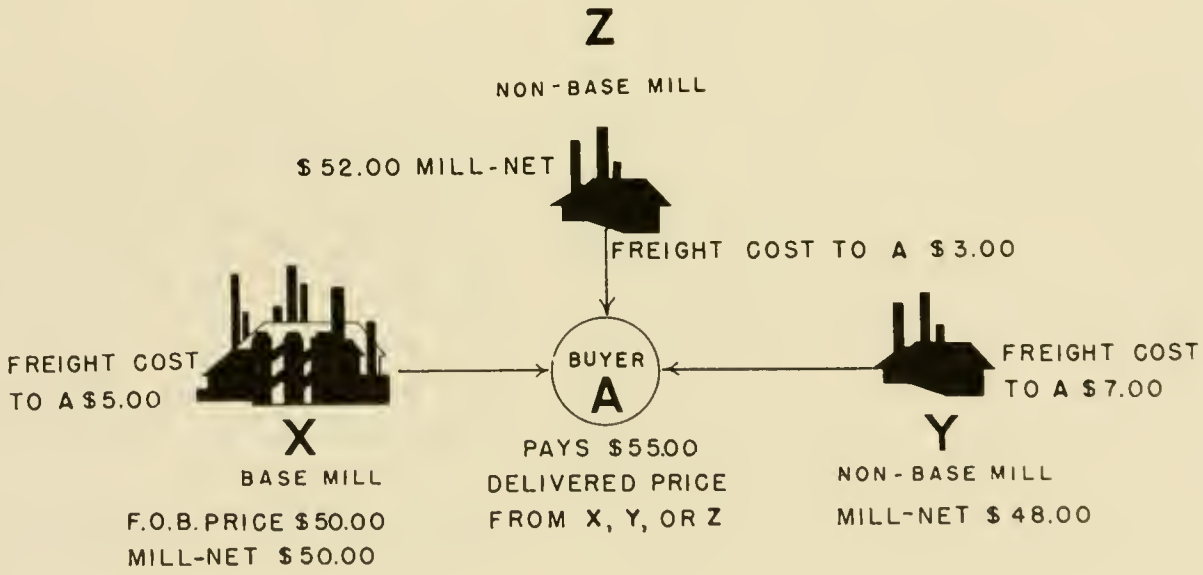
DIAGRAM III



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Now return, for a moment, to Diagram I. Suppose X has established itself as a base mill and has quoted a base price of $50.00. Assume there are buyers at points X, Y, Z, A, B, and C, as well as mills at points X, Y, and Z. Mill X is the only basing point, so that all delivered prices are calculated as in the single buyer case, by adding to X's base price the rail transportation cost from X to the buyer. The delivered prices will now be:

At point:	A	B	C	X	Y	Z
Base price	$50.00	$50.00	$50.00	$50.00	$50.00	$50.00
+ Freight cost from base X	10.00	5.00	20.00		15.00	10.00
= Delivered price	$60.00	$55.00	$70.00	$50.00	$65.00	$60.00

Regardless of the location of the sale base mill X will receive a mill net price to $50.00. The mill net prices of Y and X, however, will vary as the buyers' locality changes. The mill net prices for Y would be calculated as follows:

At point:	A	B	C	X	Y	Z
Delivered price	$60.00	$55.00	$70.00	$50.00	$65.00	$60.00
- Actual freight charge	5.00	10.00	5.00	15.00		15.00
= Mill net price	$55.00	$45.00	$65.00	$35.00	$65.00	$45.00

The mill net price for mill Z would be calculated:

At point:	A	B	C	X	Y	Z
Delivered price	$60.00	$55.00	$70.00	$50.00	$65.00	$60.00
- Actual freight charge	20.00	5.00	10.00	10.00	15.00	
= Mill net price	$40.00	$50.00	$60.00	$40.00	$50.00	$60.00

It should be pointed out, before we proceed, that a base point need not be located at a mill. For example, sellers X, Y, and Z might all announce a delivered price at point B of $50.00, in this way making B the

base point. All delivered prices would then be calculated by adding the rail transportation charges from B to the point of sales plus B's delivered price. In such a case the delivered price at point A would be $65.00, the delivered price at point Y would be $60.00, and so forth.

In the case of mill X as a basing point, charging $50.00, Y's price at point Y would be $65.00 per unit of the product. It is possible to assume that this is Y's f.o.b. mill price. If we make such an assumption it will appear that seller Y is absorbing freight on deliveries to buyers in all except two cases, namely, for deliveries at his mill, and to all territory further from base X than the distance from X to Y plus the distance to the locality of the sale in Y's direction. In no case, under these assumptions, would Y be able to collect phantom freight. However, since Y does not announce an f.o.b. mill price under the single basing-point system, neither freight absorption nor phantom freight will be calculated. If mill Y should announce an f.o.b. mill price, it would then also become a base, thus causing the system to be a multiple or plenary basing-point system, both of which are treated later. 1/

1/ Some authors prefer to reckon freight absorption and phantom freight as the difference between the freight factor (the rail freight cost from the base mill to the delivery point) and the actual freight cost to the mill making the delivery. If the actual freight cost is higher than the freight factor, there is freight absorption; if less, there is a phantom freight charge. See Machlup, p. 11 and p. 23; also, "The Effect of the Basing-point Decisions on the New England Economy," in The New England News Letter, #297-s, October, 1948, p. 3. A U.S. Steel Report, however, in TNEC Monograph No. 42, The Basing Point Problem, 76th Congress, 3rd Session (1941), dislikes the use of the term phantom freight in this case. On p. 36 it is stated that "This terminology is misleading, and contains an erroneous implication...in most cases, non-basing point mills...actually suffer a freight disadvantage due to higher raw material assembly costs, so that 'phantom freight'...may be merely compensation for such assembly cost disadvantage." The U.S. Steel Report prefers the term "freight advantage" to "phantom freight."

It should be pointed out in this connection that the costs of shipping finished goods normally are higher than those of shipping raw materials, so that non-base mills would often receive a gross profit in excess of the base mills. In such cases the net mill price at the non-base mill would be more than "merely compensation for such assembly cost disadvantage."

Whether we term this higher mill net at non-base mills "price," "phantom freight," or "freight advantage," it remains true that a non-base mill would find it a great advantage to sell in its locality.

Now refer to Diagram IV. Again, assume mill X has established itself as a base, quoting, as before, a base price of $50.00. As mill X is the only basing point all prices are calculated, as before, by adding to X's f.o.b. mill price the all-rail transportation costs from X to the buyer. The delivered prices at points A, B, C, X, Y, and Z will be exactly the same as before, that is, $60.00, $55.00, $70.00, $50.00, $65.00, and $60.00, respectively. In Diagram IV, we see that mill Z can ship to point C via water more cheaply than by rail, and also that shipments to point Y and point A could more economically be made partly by water and partly by rail. Further, mill X could ship to point C at a lower cost if it shipped by truck, or even, partly by rail and partly by water. These factors, however, have no bearing on the delivered prices, since the price at any point is calculated by adding to the base price the all-rail freight cost to the buyer, regardless of the method of transportation.

Unlike the previous example, mill X may now receive, in some instances, more than $50.00 mill net. For example, on a shipment to point C by truck, calculate:

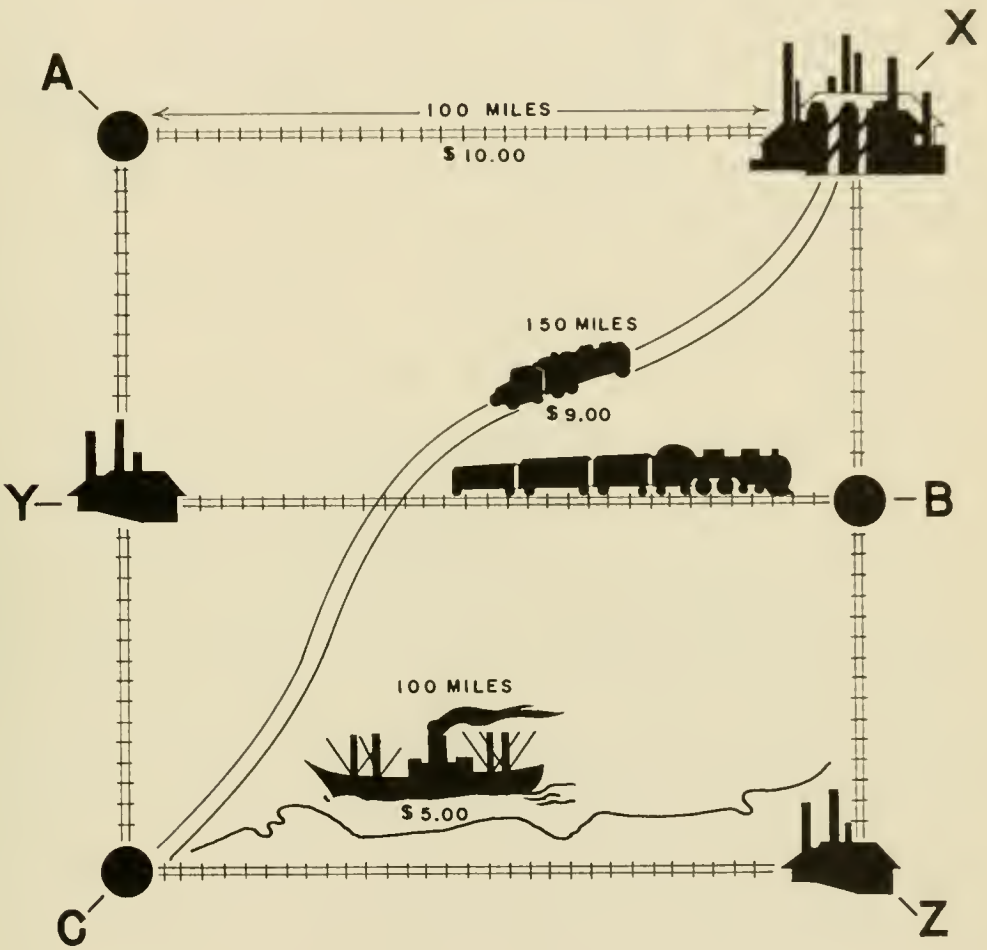
Base price at mill X 1/	$50.00
+ Rail transportation cost to point C	20.00
= Delivered price at point C	70.00
- Actual transportation charge by truck	9.00
= Mill net price received by mill X	61.00
Phantom freight charge	$11.00

The phantom freight was calculated by subtracting from the delivered price ($70.00) the sum of the seller's base price plus the actual cost of transportation ($50.00 + $9.00). Thus $70.00 - $59.00 = $11.00 phantom freight.

If mill X shipped by rail to point Z, and then by water from point Z to point C, there would be a charge of $5.00 phantom freight, calculated as follows:

1/ In actual practice, firms call base price "f.o.b. mill price."

DIAGRAM IV



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Base price at mill X	$50.00
+ Rail transportation cost to point C	20.00
= Delivered price at point C	70.00
- Actual rail-water transportation charge	15.00
= Mill net price received by mill X	55.00
Phantom freight charge	$ 5.00

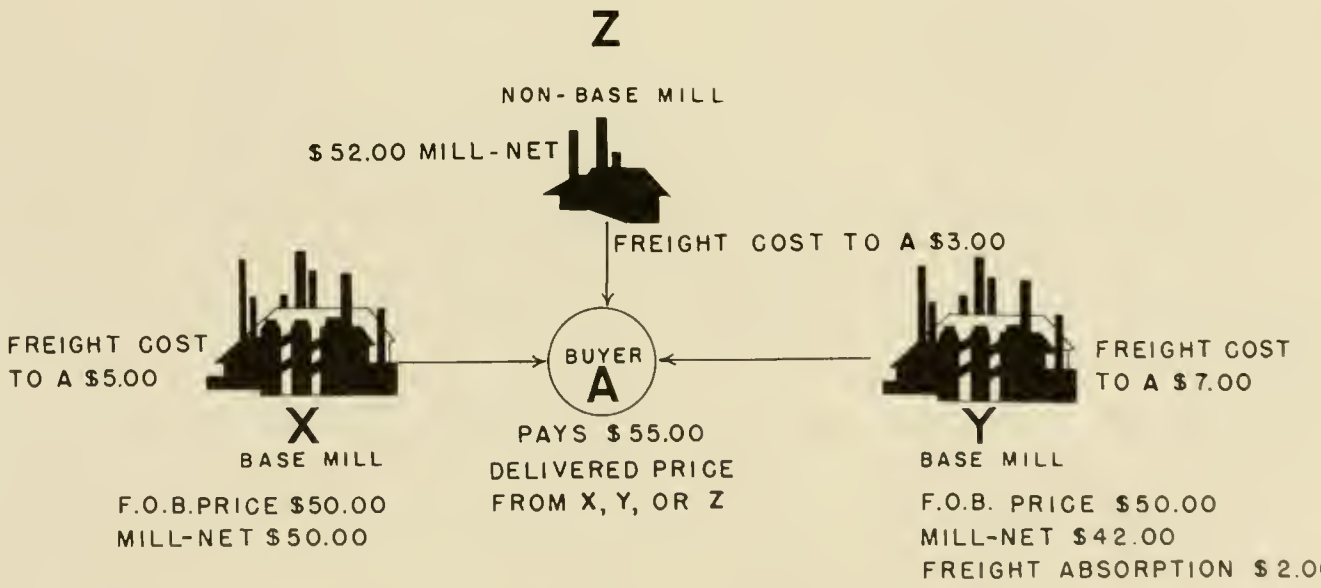
The phantom freight was calculated, as before, by subtracting from the delivered price the sum of the seller's base price plus the actual cost of transportation. Thus $70.00 - $65.00 = $5.00 phantom freight. 1/

The Multiple Basing-Point Method. Suppose for some reason the mill at Y in Diagram V announces an f.o.b. mill price of $50.00, adding, however, that it will meet the delivered price of all competitors. Mill Y thus becomes a base. Since mill X is also a base with a base price of $50.00, we now have two base mills, or a multiple basing-point system. The delivered price to a buyer is now determined by calculating the lowest combination of base prices and all rail transportation charges.

1/ The U.S. Steel Report does not like the term "phantom freight" used in this connection either. See p. 36, op. cit. "There are good reasons why the base mill...usually does not quote a delivered price (to the buyer)... based upon the cost of water transportation. First, a barge shipment must be much larger than a rail shipment before it can be carried economically. Comparatively few customers are willing to order the quantity... required for a barge load. This rules out many shipments which might otherwise be made by water. Second, water transportation is slower than rail, and buyers are not always willing to wait for water delivery. Third, facilities may not be available at destination for economically and efficiently handling delivery by water. Fourth, shipments by water always involve extra costs at both mill and destination, which greatly reduce or eliminate any saving in transportation costs, except when shipped for considerable distances. Fifth, closed seasons of navigation by reason of climatic or flood conditions present transportation hazards uncertain in time or effect which prevent sound business determinations with respect to future delivery."

The fallacy running throughout this statement is obvious. The buyer, under the basing-point system, is forced to pay the rail transportation costs, regardless of the method of transportation. Certainly, if he is in a position to wait for the slower water shipments or buy in large quantities, or for any other reason, to prefer water shipments he should be allowed to benefit from his position. While, in fact, he is given the choice of rail, water, or truck transportation, he pays the all-rail charges regardless of his choice.

DIAGRAM V



BASE MILL AT X HAS LOWER BASE PRICE PLUS FREIGHT TO A
BASE MILL AT Y CHARGES THE SAME DELIVERED PRICE, THUS ABSORBING $2.00 FREIGHT

MARYLAND STATE PLANNING COMMISSION

In Diagram V we have a very simple case. The base price plus all rail transportation costs from X base to point A is $50.00 + $5.00, or $55.00, while in the case of base Y the combination would be $50.00 + $7.00, or $57.00. Since X's price would be lower, X becomes the governing base. The delivered price at point A is therefore $55.00 regardless of the mill making the sale. The mill net prices of mills X, Y, and Z would now be $50.00, $48.00, and $52.00. The freight absorption by mill B would be calculated by subtracting from the delivered price the sum of the seller's base price plus the actual transportation cost. Thus $55.00 - $57.00 = - $2.00, or $2.00 freight absorption.

If, in Diagram IV, mill X and mill Z are basing points, both quoting a base price of $50.00, the delivered prices would be as follows:

At point:	A	B	C	X	Y	Z
Governing base mill	X	(X or Z)	Z	X	(X or Z)	Z
Base price of governing base	$50.00	$50.00	$50.00	$50.00	$50.00	$50.00
+ Freight from governing base	10.00	5.00	10.00		15.00	
= Delivered price	$60.00	$55.00	$60.00	$50.00	$65.00	$50.00

The mill net prices may now be calculated, as in the other examples, by subtracting the actual freight costs from the delivered prices.

The Plenary Basing-Point Method. Under the plenary basing-point system every mill becomes a base. Each mill quotes an f.o.b. mill price, but is also willing to meet the price of any competitor. Suppose, for example, in Diagram V, all the mills X, Y, and Z announced a base price of $50.00, but announced their willingness to absorb freight to meet competitors' prices. Point A would now pay a delivered price of $53.00, for the mill at Z would now be the governing base, since its base price plus rail cost is the lowest. In such a case mill Y would absorb $4.00 freight, and mill X would absorb $2.00.

Usually, however, in a plenary basing-point system there is a price differential between the bases. If, in Diagram V, mills X and Y announced a base price of $50.00 and mill Z announced a base price of $52.00, then the price at A would be $55.00, with either base X or Y the governing base.

Sometimes a single basing-point method is modified to a plenary basing-point system by all mills announcing a base price exactly equal to the original mill's base price plus the rail transportation costs to all other mills. For example, suppose in Diagram I, mill X announces a base price of $50.00. Under a single basing-point system the delivered prices at points A, B, C, X, Y, and Z would be $60.00, $55.00, $70.00, $50.00, $65.00, and $60.00, respectively. Now, if Y announced a base price of $65.00 (or, the base price at X plus the rail freight charges to Y) and Z announced a base price of $60.00, the results would be exactly the same. The delivered prices at the six points would be exactly as they were under a single basing-point method.

The "Natural Market" Concept

The U.S. Steel Report defines the "natural market territory" as "the area in which each mill can sell at a delivered price calculated on the basis of its own base price, plus the (full) actual freight to the point of delivery," 1/ that is, the area in which a base mill does not absorb freight to meet the price of his competitors is his natural market. In Diagram VI we see two base mills, X and Y, 100 miles apart. If we assume a freight rate of 10¢ per mile, and a base price of $50.00 at each base, the "natural market" of both X and Y will be determined by point A exactly half way between them. However, if Y's base price is $54.00 and X's remains at $50.00, the natural markets of the two mills are determined by point B. In the first

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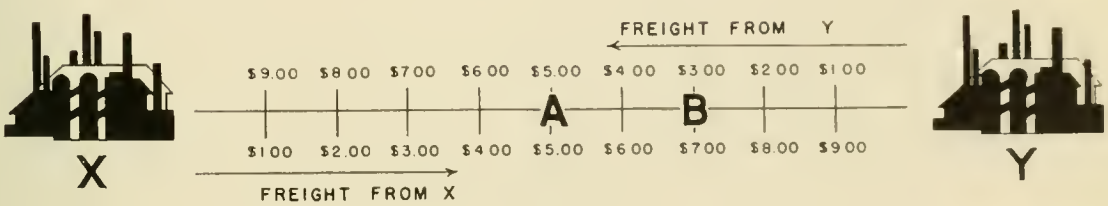
1/ TNEC Monograph No. 42, p. 37.

DIAGRAM VI


FREIGHT FROM Y
$9.00 $8.00 $7.00 $6.00 $5.00 $4.00 $3.00 $2.00 $1.00
A
B
$1.00 $2.00 $3.00 $4.00 $5.00 $6.00 $7.00 $8.00 $9.00
X
Y
FREIGHT FROM X

case, if X wishes to sell east of A it must absorb freight, as must Y if it sells west of A. In the second case, X may sell anywhere east of B without absorbing freight, but mill Y is limited to the territory east of B unless it cares to absorb freight. The example shows how a base mill may extend its natural market by lowering its base price. More will be said of this later in the report.

Conclusion

Some of the methods of pricing which can be used in order to obtain identical delivered prices have now been examined. Of course, there are variations of the methods described thus far, which will be treated separately when necessary. There are many arguments, both pro and con, for quoting identical prices, but they also will be treated in other sections of the report. The main thing now is for the reader to understand fully the terminology defined in this chapter.

CHAPTER II

BRIEF HISTORY OF THE BASING-POINT SYSTEM 1/

The basing-point system is by no means a new method of pricing. As early as 1880 steel beams were sold on a single basing-point system. This so called "Pittsburgh Plus" basis of quoting identical prices was extended in the late 1890's to numerous other steel products, such as, steel plates, bars, sheets, tin-plate, and various types of steel wire. Early in the 1900's the cement industry adopted the basing-point method. Cement, however, differing from steel, was quoted on a multiple basing-point basis from an earlier date. Later corn product prices were quoted on a single base for bulk goods, and on a zone-pricing scheme for packaged products. The various systems were extended to industry after industry, until at one time or another they covered at least 20 industries. The most important industries that have at some time used the single or multiple basing-point systems are: 2/

Iron and steel	Fire brick
Welded chain	Asphalt roofing material
Rigid steel conduit	Maple flooring
Cast-iron soil pipe	Oak flooring
Lead	Other lumber products (cedar,
Copper	hemlock, cypress, pine, fir)
Zinc	Wood pulp
Muriate of potash	Sugar
Gasoline	Corn products (corn syrup, corn
Cement	oil, starch, gluten feed)

On the basis of answers to our questionnaire 3/ sent to one thousand Maryland firms, the following is a list of some of the products

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1/ This chapter relies heavily on Machlup, op. cit., and Frank A. Fetter, The Masquerade of Monopoly.

2/ Taken from Machlup, p. 17.

3/ See Appendix A.

manufactured in Maryland that have been sold on a basing-point system:

Cement	Lumber
Brick	Gypsum
Crushed stone	Animal and poultry feeds (some)
Lime	Crushed oyster shells for poultry
Masonry mortar	Stainless steel forgings
Rubber soles and heels	Stainless steel sheets
Industrial chemicals (some)	Hot-rolled steel products
Chrome colors	Billets and blooms
News print	Most cold-rolled steel products
Certain types of paper	Insulated doors

This list is by no means complete, but it gives the reader an idea of the extent to which the basing-point system has developed and spread in the State of Maryland.

Adopted in 1880, the "Pittsburgh Plus" system of quoting identical delivered prices for numerous steel products remained intact until 1920, with only two serious deviations during the period. The first in 1909 and the other in 1911-12. In both cases Chicago mills attempted to establish their city as a base. The underutilized Chicago mills, feeling they could increase sales if they lowered their prices, were soon persuaded that it would be unwise to deviate from the established system.

Under this system prices of the affected steel items were determined by adding to the base price at Pittsburgh the all-rail freight rate to the buyer's locality. To aid steel producers in calculating the delivered prices from base prices, two books were circulated. The first, a "book of extras," was used to "calculate a special addition (or sometimes a deduction) for quantities or specifications (i.e., size, gauge, chemical composition, physical characteristics, inspection, etc.) other than the standard quantities and specifications to which the base price applies." 1/

1/ Carroll R. Dougherty, Melvin G. DeChazeau, and Samuel S. Stratton, The Economics of the Iron and Steel Industry, I, p. 208 (1937).

The second book to aid in price calculations was a rail-freight tariff schedule, or the "freight rate book." 1/ Thus, all steel producers were able to calculate the delivered price to any and all customers.

In the early 1920's the steel industry, forced by pressures from Chicago mills and the Federal Trade Commission, shifted to a multiple basing-point system. The result of this change was lower prices for steel in the western and southern sections of the country, but identical delivered prices were still maintained. 2/ On May 26, 1936 the Navy Department, Bureau of Supplies and Accounts opened bids for cold-rolled or cold-drawn steel submitted by 31 steel manufacturers. The price quoted by all 31 producers was $20,727.26. Earlier, on November 19, 1935, 43 out of 50 firms bid $45,683.48 to supply the same bureau with welded steel pipe.

The "Pittsburgh Plus" system was, as stated earlier, extended to a multiple basing-point system. Other industries adopted similar systems. By 1948 such systems were well established throughout the country.

Then, in April 1948 the Supreme Court declared the basing-point system for cement to be a form of unfair competition and to involve unlawful

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1/ "The American Iron and Steel Institute has a traffic committee composed of traffic managers of 10 different steel companies. This committee supervises the Institute's Freight Rate Book. There are four sections to the Institute's Rate Book, and the responsibility of keeping these sections up to date is assigned to different members of the committee. When corrections are necessary - and by necessary I mean when rate changes take place - these committee members have the change made on supplementary sections or pages, sending these sections or pages to the institute for distribution to holders of the rate book." From the testimony of Benjamin F. Fairless, President of The United States Steel Corporation, New York City, as published in Part 27, Iron and Steel Industry, of the Hearings Before the Temporary National Economic Committee of the United States, 76th Congress, 3rd Session, p. 14222.

2/ Ibid. pp. 14547-14543.

restraint of trade. 1/ Shortly thereafter, in the Conduit Case 2/the Circuit Court of Appeals declared that the individual use of the basing-point system with the knowledge that competitors also use it is also unfair competition and unlawful discrimination.

Many business lawyers claimed that the Cement and Conduit Cases spelled the end of delivered prices. They claimed that all prices must be announced f.o.b. mill. Others claimed that, while the Cement and Conduit Cases did not outlaw delivered pricing per se, the courts were heading on a course which would soon lead to compulsory f.o.b. mill pricing.

After the decision, many industries, notably the iron and steel industry, adopted a system of uniform f.o.b. mill pricing. A bill was introduced in the Eighty-First Congress to legalize the absorption of freight costs in order to quote uniform delivery prices, provided there was no conspiracy involved. The bill, S. 1008, was passed by the House, but the Senate postponed a vote on the House compromise until 1950. 3/

1/ F.T.C. v. The Cement Institute, op. cit.

2/ 168F2d 175 (1948).

3/ See Appendix B.

CHAPTER III

MARYLAND'S INDUSTRIAL CONCENTRATION

Introduction

Early in July of 1949 the Maryland State Planning Commission mailed to one thousand Maryland manufacturers a copy of a questionnaire entitled "Has Your Business Been Affected by the Basing-Point Decision?"1/ All manufacturers in Maryland who employed 50 or more persons were sent a copy of the questionnaire. Further, firms in ten industries, employing 25 persons or more, were also surveyed. These ten industrial groups, listed below, were chosen in order that a larger sample could be obtained from the industries most likely to be affected, as shown in other published reports on the basing-point system.

Chemical and allied products
Coal and petroleum products
Rubber products
Leather and leather products
Stone clay and glass products
Primary metals
Fabricated metal products
Machinery (except electrical)
Electrical machinery
Transportation equipment

The mailing list was taken from the 1949 Directory of Maryland Manufacturers, published by the Department of Labor and Industry. The firms surveyed accounted for 87% of the total manufacturing employment in Maryland. The purpose of the questionnaire 2/ was to determine opinion of Maryland manufacturers on the basing-point issue; the effect on their sales, purchases, and employment if a system of compulsory f.o.b. mill pricing were established; and

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1/ Our questionnaire was based on a questionnaire prepared by Dr. Alfred C. Neal, Vice President and Director of Research, Federal Reserve Bank of Boston for his survey on "The Effect of the Basing Point Decisions on the New England Economy," published in the New England News Letter, #297-S, October, 1948.

2/ See Appendix A.

to what extent systems such as the basing-point or zone-pricing methods prevailed in Maryland.

The number of replies was gratifying. Nearly 20% of the firms on the mailing list replied. These firms represented 40% of the total employment in Maryland manufacturing. 1/

To supplement the questionnaire, personal interviews were arranged with the management and officials of a variety of firms throughout the State. These interviews proved extremely helpful in formulating views on the probable results of a change in pricing methods.

Manufacturing in Maryland

Maryland is a manufacturing state. Forty-two per cent of her gainfully employed nonagricultural workers manufacture thousands of items for shipment throughout the world. Averaging nearly $60.00 weekly, some 240,000 manufacturing employees took home over $184 million in their pay envelopes during the last quarter of 1948. Needless to say, any law affecting Maryland's manufacturing could have far reaching effects on the State's economic well-being.

The four most important manufacturing industries in the State account for over 50% of the total men and women employed in manufacturing, but the remaining industries are well diversified. Table 1 shows the distribution of employees among the various industries. It is conceivable, for example, that a compulsory change in pricing might have wide effects on one industry, but go unnoticed by the State as a unit. On the other hand, it could affect a few important industries and sharply change the economy of the State.

Industries Likely to be Affected

On the basis of 185 replies to our questionnaire, our personal inter-

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1/ It should be noted that this figure does not include a few of the larger firms likely to be affected, which chose not to answer the questionnaire.

TABLE 1

EMPLOYMENT DISTRIBUTION IN THE MANUFACTURING INDUSTRIES OF MARYLAND

(BASED ON AVERAGE MONTHLY FIGURES FOR OCTOBER-DECEMBER, 1943)

Group	Reporting Units	Employees	% Distribution
Food and kindred products	692	33,125	13.9
Tobacco products	7	186	0.1
Textile mill products	67	15,295	6.4
Apparel	438	24,944	10.5
Lumber and wood products	376	5,532	2.3
Furniture and fixtures	127	3,953	1.7
Paper and allied products	47	5,078	2.1
Printing, publishing, and allied products	374	10,161	4.3
Chemicals and allied products	201	11,118	4.7
Coal and petroleum products	22	2,504	1.1
Rubber products	17	5,123	2.2
Leather products	31	4,021	1.7
Stone, clay, and glass products	183	8,525	3.6
Primary metals	51	30,104	12.6
Fabricated metal products	173	16,924	7.1
Machinery (except electrical)	142	12,002	5.0
Electrical machinery	43	11,041	4.6
Transportation equipment	119	31,955	13.4
Professional, scientific equipment	34	1,240	0.5
Miscellaneous industries	147	5,165	2.2
TOTAL	3,291	237,996	100.0

Source: Department of Employment Security.

views, and other material, it may definitely be said that only seven industries in Maryland will be affected to any extent by a shift to f.o.b. mill pricing. These industries employ approximately 35% of the total employees in Maryland manufacturing. They are:

Primary metals	12.6 %
Fabricated metal products	7.1
Chemicals and allied products	4.7
Stone, clay, and glass products	3.6
Lumber and wood products	2.3
Rubber products	2.2
Paper and allied products	2.1

When it is said that these seven industries are "affected," this implies either adverse or beneficial effects.

Before studying each industry in detail, an examination of the State by counties will be made in order to determine what areas will most likely be affected because of a heavy concentration of the seven industries named above.

Tables 2 through 11 present the distribution of industries, by units and employees, in the counties of Maryland. Counties and industries have been combined in some instances, since the Department of Employment Security may not release employment figures for an industry unless the figures cover the combined employment of four or more firms. In some instances, estimates of employment in various groups have been made from figures on employment for individual firms, as given in the 1949 Directory of Maryland Manufacturers. Table 12 shows the percentage that the affected employment represents of the total nonagricultural employment in the area.

As might be expected, the areas most likely to be affected by a change to f.o.b. mill pricing are Baltimore City, Baltimore County, and Allegany County. Perhaps an unexpected omission from this list is Washington County. This is due to the low concentration of manufacturing in industries likely to be affected.

The discussion, thus far, has been in the way of an introduction. The manufacturing groups will now be segregated and each studied in more detail. Then each area of the State will be studied in a less general way.

TABLE 2

EMPLOYMENT DISTRIBUTION IN THE MANUFACTURING INDUSTRIES OF BALTIMORE CITY

(BASED ON AVERAGE MONTHLY FIGURES FOR OCTOBER-DECEMBER, 1948)

Group	Reporting Units	Employees	% Distribution 1/
Food and kindred products	287	20,445	16.4
Tobacco products	5	137	0.1
Textile mill products	30	3,077	2.5
Apparel	368	18,307	14.7
Lumber and wood products	56	1,520	1.2
Furniture and fixtures	92	3,135	2.5
Paper and allied products	38	2,843	2.3
Printing, publishing, and allied products	240	8,641	6.9
Chemicals and allied products	141	9,480	7.6
Coal and petroleum products	16	2,439	2.0
Rubber products	10	1,515	1.2
Leather products	20	1,293	1.0
Stone, clay, and glass products	50	3,961	3.2
Primary metals	36	6,566	5.3
Fabricated metal products	139	15,021	12.0
Machinery (except electrical)	96	6,243	5.0
Electrical machinery	27	7,423	6.0
Transportation equipment	42	8,538	6.8
Professional, scientific equipment	22	306	0.2
Miscellaneous industries	100	3,798	3.0
TOTAL	1,815	124,688	100.0

Source: Department of Employment Security.

1/ Figures will not necessarily total 100% because of rounding.

TABLE 3

EMPLOYMENT DISTRIBUTION IN THE MANUFACTURING INDUSTRIES OF ALLEGANY AND GARRETT COUNTIES

(BASED ON AVERAGE MONTHLY FIGURES FOR OCTOBER-DECEMBER, 1948)

Group	Reporting Units	Employees	% Distribution 1/
Food and kindred products	27	761	4.8
Textile mill products; apparel	6	10,326	64.7
Lumber and wood products; furniture and fixtures	57	427	2.7
Paper products; printing, publishing, and allied products	11	1,768	11.1
Leather products; stone, clay, and glass products	17	522	3.3
All others	13	2,157	13.5
TOTAL	131	15,961 2/	100.0

Source: Department of Employment Security.

1/ Figures will not necessarily total 100% because of rounding.

2/ Total employment for same period distributed as follows: Allegany County, 90.7%; Garrett County, 9.3%.

TABLE 4

EMPLOYMENT DISTRIBUTION IN THE MANUFACTURING INDUSTRIES OF BALTIMORE COUNTY

(BASED ON AVERAGE MONTHLY FIGURES FOR OCTOBER-DECEMBER, 1948)

Group	Reporting Units	Employees	% Distribution 1/
Food and kindred products	23	2,274	4.3
Textile mill products; apparel	4	468	0.9
Lumber and wood products	23	350	0.7
Furniture and fixtures	7	244	0.5
Paper and allied products	5	555	1.0
Printing, publishing, and allied products	5	49	0.1
Chemicals and allied products	6	523	1.0
Stone, clay, and glass products	7	81	0.2
Primary metals	5	23,136	43.4
Fabricated metal products	7	646	1.2
Machinery (including electrical)	14	5,702	10.7
Transportation equipment	12	18,493	34.7
All others	8	730	1.4
TOTAL	126	53,251	100.0

Source: Department of Employment Security.

1/ Figures will not necessarily total 100% because of rounding.

TABLE 5

EMPLOYMENT DISTRIBUTION IN THE MANUFACTURING INDUSTRIES OF ANNE ARUNDEL AND HOWARD COUNTIES

(BASED ON AVERAGE MONTHLY FIGURES FOR OCTOBER-DECEMBER, 1948)

Group	Reporting Units	Employees	% Distribution
Food and kindred products	4	64	3.5
Textile mill products; apparel	4	387	21.4
Lumber and wood products	17	77	4.3
Printing, publishing, and allied products	6	97	5.4
Chemicals and allied products	8	90	5.0
Stone, clay, and glass products	11	480	26.5
Machinery (except electrical)	4	41	2.3
Transportation equipment	21	205	11.3
All others	7	368	20.3
TOTAL	82	1,809	100.0

Source: Department of Employment Security.

TABLE 6

EMPLOYMENT DISTRIBUTION IN THE MANUFACTURING INDUSTRIES OF PRINCE GEORGE'S COUNTY

(BASED ON AVERAGE MONTHLY FIGURES FOR OCTOBER-DECEMBER, 1948)

Group	Reporting Units	Employees	% Distribution
Food and kindred products	6	40	2.6
Lumber and wood products; furniture and fixtures	14	65	4.1
Printing, publishing, and allied products	14	46	2.9
Chemicals and allied products	4	282	18.0
Stone, clay, and glass products	24	437	27.9
Primary metals; fabricated metal products	4	99	6.3
Machinery (including electrical)	6	379	24.2
Transportation equipment; miscellaneous industries	5	219	14.0
TOTAL	77	1,567	100.0

Source: Department of Employment Security.

TABLE 7

EMPLOYMENT DISTRIBUTION IN THE MANUFACTURING INDUSTRIES OF CARROLL, FREDERICK, AND MONTGOMERY COUNTIES

(BASED ON AVERAGE MONTHLY FIGURES FOR OCTOBER-DECEMBER, 1948)

Group	Reporting Units	Employees	% Distribution 1/
Food and kindred products	88	1,791	18.7
Textile mill products; apparel	16	2,782	29.0
Lumber and wood products	25	168	1.8
Furniture and fixtures	12	129	1.3
Printing, publishing, and allied products	32	408	4.3
Chemicals and allied products	11	92	1.0
Stone, clay, and glass products	21	544	5.7
Fabricated metal products	4	169	1.8
Machinery (including electrical)	21	911	9.5
All others	17	2,586	27.0
TOTAL	247	9,580	100.0

Source: Department of Employment Security.

1/ Figures will not necessarily total 100% because of rounding.

TABLE 8

EMPLOYMENT DISTRIBUTION IN THE MANUFACTURING INDUSTRIES OF WASHINGTON COUNTY

(BASED ON AVERAGE MONTHLY FIGURES FOR OCTOBER-DECEMBER, 1948)

Group	Reporting Units	Employees	% Distribution
Food and kindred products	33	529	4.8
Textile mill products	15	850	7.7
Apparel	6	573	5.2
Lumber and wood products	11	209	1.9
Furniture and fixtures	6	417	3.8
Printing, publishing, and allied products	12	291	2.6
Chemicals and allied products	4	135	1.2
Leather products	5	910	8.2
Stone, clay, and glass products	13	524	4.7
Primary metals; fabricated metal products	7	364	3.3
Machinery (including electrical)	5	1,815	16.4
All others	14	4,445	40.2
TOTAL	131	11,062	100.0

Source: Department of Employment Security.

TABLE 9

EMPLOYMENT DISTRIBUTION IN THE MANUFACTURING INDUSTRIES OF CALVERT, CHARIES, AND ST. MARY'S COUNTIES

(BASED ON AVERAGE MONTHLY FIGURES FOR OCTOBER-DECEMBER, 1948)

Group	Reporting Units	Employees	% Distribution
Food and kindred products	8	135	18.6
Textile mill products	15	280	38.5
Lumber and wood products	14	127	17.5
Printing, publishing, and allied products	5	25	3.4
Chemicals and allied products	3	10	1.4
Stone, clay, and glass products	3	14	1.9
Fabricated metal products; transportation equipment	5	136	18.7
TOTAL	53	727	100.0

Source: Department of Employment Security.

TABLE 10

EMPLOYMENT DISTRIBUTION IN THE MANUFACTURING INDUSTRIES
OF CECIL, HARFORD, AND KENT COUNTIES

(BASED ON AVERAGE MONTHLY FIGURES FOR OCTOBER-DECEMBER, 1948)

Group	Reporting Units	Employees	% Distribution 1/
Food and kindred products	46	729	17.3
Textile mill products; apparel	9	586	13.9
Lumber and wood products; furniture and fixtures	24	211	5.0
Paper products; printing, publishing and allied products	17	245	5.8
Chemicals and allied products	13	341	8.1
Primary metals; fabricated metal products	5	53	1.3
Machinery (including electrical)	4	184	4.4
Transportation equipment	11	112	2.7
All others	14	1,750	41.6
TOTAL	143	4,211	100.0

Source: Department of Employment Security.

1/ Figures will not necessarily total 100% because of rounding.

TABLE 11

EMPLOYMENT DISTRIBUTION IN THE MANUFACTURING INDUSTRIES OF
CAROLINE, DORCHESTER, QUEEN ANNE'S, SOMERSET, TALBOT, WICOMICO, AND WORCESTER COUNTIES

(BASED ON AVERAGE MONTHLY FIGURES FOR OCTOBER-DECEMBER, 1948)

Group	Reporting Units	Employees	% Distribution 1/
Food and kindred products	169	6,347	45.8
Textile mill products; apparel	45	3,081	22.2
Lumber and wood products; furniture and fixtures	128	2,183	15.7
Printing, publishing, and allied products	29	256	1.8
Chemicals and allied products	11	167	1.2
Stone, clay, and glass products	19	178	1.3
Fabricated metal products	7	503	3.6
Miscellaneous industries	13	753	5.4
All others	25	399	2.9
TOTAL	446	13,367	100.0

Source: Department of Employment Security.

1/ Figures will not necessarily total 100% because of rounding.

TABLE 12

AREA DISTRIBUTION OF MANUFACTURING EMPLOYEES LIKELY TO BE AFFECTED BY A SHIFT TO F.O.B. MILL PRICING

(BASED ON AVERAGE MONTHLY FIGURES FOR OCTOBER-DECEMBER, 1943)

Area	Total Employment 2/	Employees Affected 3/	% Affected
Maryland 1/	570,795	82,395	14.4
Baltimore City	337,883	40,906	12.1
Allegany and Garrett Counties	26,932	4,473	16.6
Baltimore County	66,099	25,291	38.3
Anne Arundel and Howard Counties	9,290	747	8.0
Prince George's County	13,633	883	6.5
Carroll, Frederick, and Montgomery Counties	31,206	1,163	3.7
Washington County	21,103	1,432	6.8
Calvert, Charles, and St. Mary's Counties	3,573	219	6.1
Cecil, Harford, and Kent Counties	10,534	1,270	12.1
Caroline, Dorchester, Queen Anne's, Somerset, Talbot, Wicomico, and Worcester Counties	30,561	3,031	9.9

Source: Department of Employment Security.

1/ Includes nondistributable employment of 19,981.

2/ Covered by Unemployment Compensation Law.

3/ Based on Tables 1 through 11.

CHAPTER IV

INDUSTRIES NOT AFFECTED BY THE BASING-POINT RULINGS

Since the thirteen industries not likely to be affected by a shift to f.o.b. mill pricing employ over 60% of the men and women in manufacturing, it may be well to examine them in more detail.

Food and Kindred Products

About 14% of the total men and women in the State's manufacturing are employed in the production of food and kindred products. These enterprises include: meat packing; slaughtering; canning fish, vegetables, and fruit; bottling beers, wines, and liquors; as well as many other industries preparing food or drinks. A total of 23,125 employees are employed in this major industry group throughout the State, of which well over one half are employed in Baltimore City.

The Commission sent 256 questionnaires to various food manufacturers and received only 18 replies, representing 7.6% of the total employment in this group. However, we expected a small return from this industry for firms unaffected and unaccustomed to a zone or basing-point system were less interested than those industries most vitally affected.

Two firms producing feed reported selling on a zone or basing-point basis, but this industry subgroup represents less than one half of 1% of the total employees in food and kindred products, or less than 200. One of these expects no drop in employment or sales if an f.o.b. mill pricing system is adopted. The other expects a drop of 15, or 50% in employment, but gives no reason as to why he estimates this decrease. In view of the fact that Maryland, Delaware, New Jersey, Pennsylvania, Virginia, West Virginia, and the District of Columbia import a great deal more animal and poultry feed than they export, the reported estimate may be unduly pessimistic.

Probably 99% of the food industry will not be affected directly by a shift to f.o.b. mill pricing, for the producers sell and buy, for the most part, on such a system, or sell on some type of haphazard freight absorption system unlike any competitor. The other 1% will be affected only very slightly.

Tobacco; Professional, Scientific, and Controlling Instruments; and Miscellaneous Industries

On the basis of eight returns from firms employing 20% of the total workers in these three industry groups, all sales are made now and have been made in the past on an f.o.b. mill pricing system. Consequently, the sales of these industries would not be affected in any way by the complete abandonment of the basing-point or zone system. Furthermore, the raw materials purchased on a basing-point or zone system by these industries are so small a portion of cost that any decrease or increase in total costs would be negligible.

Textile Mill Products; Apparel and Other Finished Products

Twenty-seven replies from firms employing over 10% of the workers in these two industry groups indicated not one case of either zone or basing-point pricing. Similarly, there was no case of materials being purchased on any zone or basing-point system. Consequently we may safely assume that these two industries will not be affected in any way by any over-all change to f.o.b. mill pricing.

Furniture and Fixtures

Six replies from the furniture and fixtures industry, representing 12% of the employed in this industry, reported that they would not be affected by a shift to f.o.b. mill pricing for the following reasons: (1) They already make their sales in this way; (2) Changes in costs of affected materials would be so negligible they would have no noticeable effect on total costs.

Printing, Publishing, and Allied Industries

Eight firms, employing 990 men and women, about 10% of the total employment in this industry, reported that they would not be affected to any extent by a shift to an f.o.b. mill pricing system. Evidently a change in the price of paper or newstype would represent such a negligible portion of total costs that it could be disregarded.

Leather and Leather Products

The returns from four firms, or over 10% of this industry, also reported no anticipated effect if a system of f.o.b. mill pricing were made compulsory.

Machinery and Transportation Equipment

Twenty-seven firms, employing 33,978 men, or about 62% of the total employees in these groups, reported little or no anticipated effect due to a shift to f.o.b. mill pricing. No firm reported that its sales are now, or ever were, on a zone or basing-point system. Only three firms reported any expected noticeable increase in their total costs of materials as a consequence of a shift to f.o.b. mill pricing.

This is a rather strange result. In the New England Survey[1/] firms manufacturing machinery felt they would be distinctly affected by a shift to an f.o.b. mill pricing system. Probably the reason for this difference is that the cost of machinery produced in Maryland is of such a nature that labor and fixed costs represent a higher percentage of cost. Also, in 1948, business was much more alarmed by a change in pricing methods than now. After more than a year of f.o.b. mill pricing by some of the largest producers, many firms realize their earlier pessimism was exaggerated.

1/ Neal, op. cit., p. 5.

Summary

In summarizing, let us list a few of the reasons why these thirteen industries would be unaffected:

1. Most important, the sales were not on a basing-point or zone system.

2. Some industries bought no materials on a basing-point or zone system.

3. Those that bought material on a basing-point system often bought such a small quantity that a slight change in price had no noticeable effect. This was probably the result in the printing and publishing industry.

4. Others, purchasing a larger amount of material on a basing-point or zone system, produced such specialized items that labor and equipment were the major cost items. Machinery and furniture are probably examples of this case.

These are the most important reasons that the thirteen industries mentioned would be unaffected by a shift to f.o.b. mill pricing. Now let us examine those industries most likely to be affected by court or legislative action.

CHAPTER V

IRON AND STEEL

Most important of the industries likely to be affected by a shift to uniform f.o.b. mill pricing is the iron and steel industry. Unfortunately the major portion of this industry did not return questionnaires.

The four firms which did report accounted for less than 10% of the total employment in this industry. Of these, only two expected to be affected by a compulsory shift to uniform f.o.b. mill pricing. These two firms estimated an average decrease in sales of about 20%, causing a decrease in total employment ranging between 750 and 1,000. However, because the sample was small, heavy reliance has been placed on the other available information.

The Iron and Steel Industry in Maryland

Shortly after the cement decisions in April, 1948 the steel industry adopted the system of uniform f.o.b. mill pricing. This sudden change brought forth a clamor from fabricators all over the Nation, especially those distant from their steel suppliers. Costs of steel, in some instances, rose as much as 50%. Steel fabricators feared the results. Some predicted 100% drops in sales. Few saw any good in the change.

The reasons for this pessimis were numerous. First, U.S. fabricators were accustomed to a system of identical prices from their steel suppliers. Now they faced a system of many prices for each product. Each supplier quoted a different delivered price to every point or, in some instances, refused to quote a delivery price, claiming it illegal. Consequently, steel purchasers were forced to figure freight rates for themselves. Small firms could not afford the time or expense involved in calculating delivered prices.

It must be remembered that the steel industry's shift to f.o.b. mill pricing came at a time when demand for steel was in excess of supply.

Consequently, steel fabricators were forced to buy steel when and where they could get it. Had a buyers' market existed, it is doubtful if steel fabricators would have been burdened with calculating freight rates. The steel producers would have probably been glad to oblige.

A second reason for steel fabricators' confusion was a price rise for most steel products. This price increase was made concurrently with the shift to f.o.b. mill pricing. Consequently, many fabricators blamed the new f.o.b. mill pricing system for the increase.

Third, an additional increase in steel prices was involved in the method adopted by the steel mills for the change of their pricing technique. This increase was brought about by quoting an f.o.b. factory price equal to the previous base price, instead of quoting a price equal to their previous average mill-net price. That is, if the base price at Sparrows Point was $65.00 per ton for 16 gauge sheets, the f.o.b. mill price under the new system was quoted at $65.00 per ton. Actually the f.o.b. mill price would have been an average of mill-net prices received under the basing-point system, if no price rise were to occur.

For example, suppose a mill at Buffalo sold 50% of its plates in Buffalo and 50% in New York City. If the base prices at Buffalo and at Sparrows Point were $65.00 per ton we would calculate:

Delivered price in Buffalo = $65.00 (base price) + $0.00 freight
= $65.00

Delivered price in N.Y.C. = $65.00 (base price) + $7.60 freight charge from Sparrows Point = $72.60 1/

The mill-net price at the Buffalo mill would be calculated:

	N.Y.C.	Buffalo
Delivered price	$72.60	$65.00
Actual freight	13.60	
	$59.00	$65.00

1/ Nearest base mill to New York was Sparrows Point.

With equal quantities sold in Buffalo and New York City the average mill-net price would be $\frac{\$59 + \$65}{2}$, or $62.

Without a price increase and with customers being supplied as before, $62.00 would have been Buffalo's f.o.b. mill price. In other words, all the mill-net receipts should have been added together and this sum divided by total tons sold to arrive at the correct f.o.b. mill price.

A fourth complaint against f.o.b. mill pricing by steel fabricators was that they could not secure delivery from near-by mills. It is obvious that under an f.o.b. mill pricing system mills would not care if a neighboring or distant mill bought their product. They would receive the same mill-net price regardless of the location of the buyer. Under the basing-point system steel producers would be more likely to drop those distant buyers rather than absorb freight in times of excess demand. 1/

Fifth, fabricators complained that a shift to f.o.b. mill pricing would cause local monopolies. This argument against f.o.b. mill pricing is often mentioned in public discussion of the basing-point system. Therefore, the problem will be examined more closely.

Today Buffalo and Sparrows Point charge the same price for cold-rolled strip, $80.00 per ton. Sparrows Point can ship by rail to Boston more cheaply than can Buffalo, that is, Boston lies inside the rail "natural market"

1/ See Senate Report #44, Changes in Distribution of Steel, 1940-1947, which showed during the period 1940-1947: (1) an increase in steel shipment to the steel companies' own fabricating subsidiaries; (2) an increase in steel shipments to the steel companies' own warehouses; (3) an increase in the proportion of steel sold in the form of more expensive cold-rolled and other highly finished types at the expense of the less costly hot-rolled types; and (4) a drawing-in of steel shipments closer to the centers of steel production. This was at a time when the basing-point system was operating.

of Sparrows Point. The freight rate by rail from Sparrows Point to Boston on strip is 56¢ per cwt, or $11.20 per ton. 1/ From Buffalo to Boston the rate is 57¢ per cwt, or $11.40 per ton. If Buffalo mills do not absorb freight, large purchases would probably be made from Sparrows Point, rather than Buffalo. However, if Sparrows Point raised its price more than one-quarter of 1%, or more than 20¢ per ton, it would lose the Boston market to the Buffalo mills.

To look at this in a different way, examine Diagram VII. Two factories, X and Y, produce cold-rolled sheets 200 miles apart. The consumers are spaced evenly along the 200-mile market. It is discovered that if Y raised its price 10%, he would lose the entire market; if he raised it 5%, he would lose 65% of the market; while a 2% increase in price would cost 30% of the market.

The fear of local "price monopolies" being created if an f.o.b. mill pricing system is adopted is therefore not valid. However, some consumers of steel complain of another type of monopoly, which shall be called a local "non-price monopoly." Consumers claim that they are forced to depend on the local firm for steel supplies and therefore the local firm holds the "big stick." This argument may in some instances have a great measure of validity.

Suppose an industry produces a product in which steel costs are the major item and that the product is sold in a very competitive market, so that a slight increase in the price by one manufacturer would cause a very great decrease in sales of the product. This decrease is absorbed in larger sales by others in the industry. The industry works on a larger

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1/ See Appendix C for increased freight rates authorized by the Interstate Commerce Commission, effective September 1, 1949.

DIAGRAM VII

ORIGINAL SITUATION

X's PRICE = $4.00 PER CWT
Y's PRICE = $4.00 PER CWT
PRICE 100 MILES FROM X AND Y
= $4.29 PER CWT
X HAS 50% OF MARKET
Y HAS 50% OF MARKET

10% RISE IN Y's PRICE

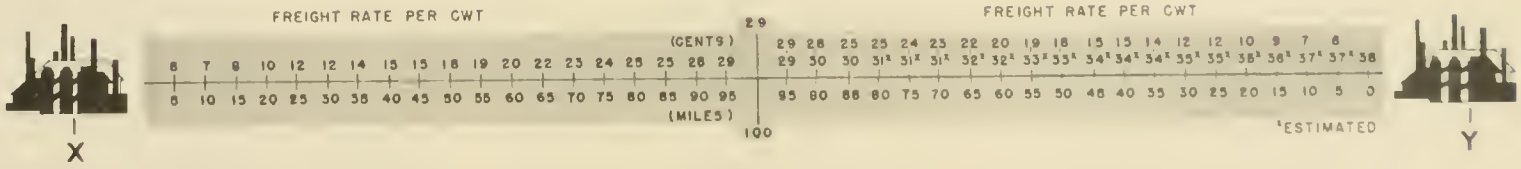
X's PRICE = $4.00 PER CWT
Y's PRICE = $4.40 PER CWT
X's PRICE AT Y = $4.38 PER CWT
Y's PRICE AT Y = $4.40 PER CWT
X HAS 100% OF MARKET
Y HAS 0% OF MARKET

5% RISE IN Y's PRICE

X's PRICE = $4.00 PER CWT
Y's PRICE = $4.20 PER CWT
X's PRICE 165 MILES FROM X
= $4.34 PER CWT
Y's PRICE 35 MILES FROM Y
= $4.34 PER CWT
X HAS 82.5% OF MARKET
Y HAS 17.5% OF MARKET
Y's LOSS OF ORIGINAL MARKET
= 65%

2% RISE IN Y's PRICE

X's PRICE = $4.00 PER CWT
Y's PRICE = $4.08 PER CWT
X's PRICE 130 MILES FROM X
= $4.31 PER CWT
Y's PRICE 70 MILES FROM Y
= $4.31 PER CWT
X HAS 65% OF MARKET
Y HAS 35% OF MARKET
Y's LOSS OF ORIGINAL MARKET
= 30%



SOURCE TRAFFIC DEPARTMENT,
BALTIMORE AND OHIO RAILROAD COMPANY

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volume of sales with only a small profit per sale. In such a case a moderate or even slight increase in the cost of steel could ruin a firm. A firm located in Pittsburgh, for example, would be able to make a profit if it purchased its steel from Pittsburgh, but if forced to buy from Chicago it could not pay the price differential and continue to make a profit. In such a case, the Pittsburgh fabricator would be forced to buy from Pittsburgh steel mills. If the local steel mill wished to force this manufacturer out of business, for any reason, it could do so by refusing to fill his orders. While this may be an exceptionally rare case now, in times of severe competition it could occur. 1/

Baltimore's Natural Market

Earlier in our discussion the natural market territory was defined as the area in which each mill sells on a delivered price calculated on the basis of its own base price, plus the actual freight to the point of delivery. Under a system of f.o.b. mill pricing each mill would be limited to its natural market, assuming purchasers of the product consider only price in choosing their suppliers. Therefore, the firm that offered the lowest f.o.b. price plus transportation charges would obtain the sale.

What then is the natural market of Maryland steel producers? Would these firms be favorably or unfavorably affected by a compulsory f.o.b. mill pricing?

Before these questions can be answered, it would be wise to examine the State's iron and steel capacity. Maryland's four steel producing firms had a capacity in 1948 to produce 6,241,600 tons of finished steel products per year, 4,746,000 tons of ingots and steel for casting, and 3,252,000 tons

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1/ There is no reason to expect any steel producer to force any fabricator out of business. The example, which is hypothetical, is used only for purposes of argument.

of pig iron, which comprise 5.7%, 5.0%, and 4.9% respectively of the total United States capacity.[1] The State ranks fifth in raw steel and hot-rolled steel capacity and seventh in blast furnace capacity.[2] In the years 1938 to 1948 Maryland's capacity increased 41.3%, and is still increasing, as is evident by an announcement by the Bethlehem Steel Company, in January of this year, that a $280,000,000 modernization and expansion project has been undertaken.[3]

By far the largest producer of iron and steel in Maryland is the Sparrows Point plant of the Bethlehem Steel Company. This plant, the second largest steel mill in the world, produces 100% of Maryland's pig iron, while its ingots and steel for casting capacity is over 97% of Maryland's total capacity. For a list of capacity figures for Maryland, Sparrows Point, and the United States see Table 13.

Since steel is such an important element in Maryland's economic life, its continued prosperity and growth is vital to the State's well-being. A change in the pricing of steel could conceivably cause a major change in the industry. Assume, then, that prices f.o.b. mill are made compulsory in the steel industry. What would be the result? Would Maryland's steel industry prosper or suffer?

In order to simplify the study of this important industry a few basic assumptions will have to be made. In some cases, these assumptions will be dropped later in the discussion. Many unexpected changes could take place in a society as dynamic as ours that would negate our discussion. A

1/ Capacity figures were taken from the Iron and Steel Works Directory of the United States and Canada, 1948.

2/ Iron Age, March 3, 1949.

3/ The Baltimore Evening Sun, January 19, 1949.

TABLE 13

RELATION OF SPARROWS POINT CAPACITY TO MARYLAND AND U. S. CAPACITY TONS
1948

Product	Sparrows Point Capacity	Maryland's Capacity	U.S. Total Capacity	% Of Sparrows Point To Maryland	% Of Sparrows Point To U. S.
Pig Iron	3,252,000	3,252,000	66,341,000	100.00 %	4.90 %
Steel (ingots and steel for castings)	4,651,000	4,746,000	94,233,460	98.00	4.96
Total finished hot-rolled products	3,733,000	3,797,000	74,324,730	98.31	5.02
Rails 60 lb. or more than 1 yd.	108,000	108,000	2,705,600	100.00	3.99
Plates - sheared	372,000	372,000	5,811,400	100.00	6.40
- universal	228,000	228,000	1,371,300	100.00	16.63
Hot-rolled sheets	1,170,000	1,195,000	18,947,570	97.92	6.17
Black plate and tin plate	890,000	890,000	4,114,300	100.00	21.63
Bars-concrete reinforcement	120,000	120,000	1,124,100	100.00	10.68
Wire Rods	440,000	458,800	6,195,170	95.91	7.10
Skelp	405,000	405,000	4,095,900	100.00	9.89
Other finished steel products	2,339,000	2,444,600	35,197,300	95.68	6.65
Pipe - buttweld	288,000	288,000	2,502,320	100.00	11.51
- topweld	72,000	72,000	669,200	100.00	10.76
- galvanized	140,000	140,000	1,266,000	100.00	11.06
Wire - plain	280,000	298,000	5,805,340	93.97	4.82
- galvanized	65,000	65,000	1,802,070	100.00	3.61
- nails and staples	65,000	65,000	1,179,140	100.00	5.51
- barbed	12,000	12,000	561,875	100.00	2.13
- bale ties	15,000	15,000	162,880	100.00	9.21
Sheets - cold-rolled	200,000	213,000	8,758,845	93.90	2.28
- galvanized	180,000	180,000	2,791,620	100.00	6.45
Black plate - ordinary	10,000	10,000	473,000	100.00	2.11
- chemically treated	74,000	74,000	117,500	100.00	62.98
Tin plate - hot-dipped	648,000	648,000	3,714,150	100.00	17.45
- electrolytic	290,000	290,000	2,176,100	100.00	13.33

Source: Iron and Steel Works Directory of the United States and Canada, 1948.

major change in technology, a great war, unforeseen government action, or a score of other major changes could invalidate our results. However, assuming no major changes in our economic or social system, we can draw certain conclusions as to the probable effect of a shift to uniform f.o.b. mill pricing on the Maryland steel industry in the short-run and long-run periods.

Our discussion will commence with a study of hot-rolled sheets and strip. This steel product is chosen because a great deal more information is readily available on it than on other steel products.

In July, 1947 hot-rolled sheets were sold on a multiple basing-point system, with 11 published bases. According to the July 10, 1947 issue of Iron Age these bases were:

(1) Pittsburgh
(2) Chicago
(3) Gary
(4) Cleveland
(5) Birmingham
(6) Buffalo
(7) Youngstown
(8) Sparrows Point
(9) Granite City
(10) Middletown, Ohio
(11) San Francisco, Los Angeles, and Seattle

If prices are assumed to remain as of July, 1949[1/] at these 11 points and, furthermore, that rail freight rates and ship freight rates remain as of August 1, 1949, we can determine the natural market of Sparrows Point. 2/ The prices at the 11 points were as follows:

Pittsburgh	$65.00 per net ton
Chicago	65.00
Gary	65.00
Cleveland	65.00
Birmingham	65.00
Buffalo	65.00
Youngstown	65.00
Sparrows Point	65.00
Granite City	72.50 3/
Middletown, Ohio	65.00 3/
San Francisco, Los Angeles, and Seattle	79.00 4/

1/ Iron Age, July 15, 1949

2/ See Appendix C.

3/ Assumed from other price data.

4/ Seattle assumed; all three are delivered points.

In Map I we see the natural market of Sparrows Point. One shading indicates the area in which the Sparrows Point plant can undersell or equal the delivered prices of all ex-basing-point competitors. The other shading is that area in which Sparrows Point has a natural rail-water market.

For example, let us cite a few cases of delivered prices:

Delivered prices of hot-rolled sheets to:

(1) Greensboro, North Carolina:

From:	F.O.B. Mill Price	Actual Rail Freight Cost	Delivered Price
Pittsburgh, Pa.	$ 65.00	$ 16.40	$ 81.40
Middletown, Ohio	65.00	14.00	79.00
Birmingham, Ala.	65.00	13.00	78.00
Sparrows Point, Md.	65.00	12.20	77.20

(2) Boston, Massachusetts

Buffalo, New York	65.00	11.40	66.40
Sparrows Point, Md.	65.00	11.20	66.20

(3) New York City

Buffalo, New York	65.00	13.60	78.60
Sparrows Point, Md.	65.00	7.60	72.60

(4) Galveston, Texas

		Freight by Rail or Rail Water Cost	
Birmingham, Ala.	65.00	20.60	85.60
Sparrows Point, Md.	65.00	16.20 1/	81.20

(5) San Francisco

		Rail-Water Freight Rate	
Sparrows Point, Md.	65.00	15.40 2/	80.40
Granite City, Ill.	72.50	26.20	98.70

The West Coast cities were not used as bases for they are "delivered bases" rather than production points. Except for a few small California mills, little steel is produced there.

What are the implications of this natural market? Is the Sparrows Point plant, as well as other Maryland producers, in a favorable position?

1/ Shipping rate 81¢ per cwt for 40,000 lbs. or over.

2/ Via ship, 77¢ per cwt, 36,000 lbs. m.c.l.

MAP I
SPARROWS POINT NATURAL MARKET FOR HOT-ROLLED SHEETS

LEGEND

- ▲ 1947 BASING POINTS
- ● 1947 DELIVERED BASES
- ALL-RAIL NATURAL MARKET
- WATER-RAIL NATURAL MARKET

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That is, will she gain or lose sales by being limited to the Sparrows Point natural market? Table 14 describes the natural market for Sparrows Point, assuming prices of July, 1949, and bases of 1947. Column (1) lists the estimated consumption by the metalworking industry for each state wholly or partly inside the natural market for hot-rolled sheets. The consumption figures were calculated on a 1948 basis, and in some instances were estimated percentages of a state's total consumption. If the figures included all consumption they would be approximately 30% higher, but they include only the consumption by metalworking industries. The total consumption for the United States of finished steel products was about 66 million tons in 1948. The metalworking industry consumed about 46 million tons.

Column (2) gives the percentage of the total rail-water natural market consumption for each district. Pennsylvania is the largest consumer on the East Coast, while California is the big purchaser on the West Coast.

Column (3) shows the rated capacity for each competing district. Column (4) lists the percentage of the total market capacity each district represents. Note that the Sparrows Point capacity is over 60% of the total. Columns (5) and (6) show the excess demand or supply for each producing area assuming production at 100% capacity. Maryland is shown to have an excess supply of 1¼ million tons. Consequently it must sell the larger proportion of its production outside Maryland.

Now if the assumption is made that all competitors of Sparrows Point, located inside the natural market, produce at 100% capacity, and sell all they produce, Sparrows Point could still sell over 100% of its rated capacity, as shown in Table 14. Obviously, using these assumptions, Sparrows Point will be very favorably affected, as far as hot-rolled sheets are concerned, by a shift to f.o.b. mill pricing. It could sell all it could produce,

TABLE 14

CONSUMPTION AND PRODUCTION OF HOT-ROLLED SHEETS AND STRIP
IN SPARROWS POINT NATURAL MARKET, 1948

All-Rail States		% of State Included	(1) Consumption in Tons	(2) % of Total Rail-Water Market	(3) Capacity in Tons (1948) 6/	(4) % of Total Capacity	(5) Excess Demand	(6) Excess Supply
Connecticut		100	251,832	10.72	150,000	6.54	101,832	
Delaware		100	12,291	0.52				
District of Columbia		100	2,488	Neg. 4/				
Massachusetts		100	287,051	12.22				
New Jersey		100	325,447	13.86	172,000	7.50	153,447	
Rhode Island		100	23,839	1.01	31,200	1.36		7,361
Virginia 1/		75	22,394	0.95				
North Carolina 1/		75	8,938	Neg.				
South Carolina 1/		25	559	Neg.				
New Hampshire 1/		25	2,187	Neg.				
Maine 1/		10	456	Neg.				
West Virginia 1/		10	4,686	Neg.				
Maryland		98	146,565	6.24	1,388,000	60.53		1,241,435
100% Baltimore City	142,827							
50% Other Maryland 1/	3,738							
New York		33	227,873	9.70				
100% New York City	207,101							
20% Other New York 1/,2/	20,772							
		57	570,431	24.29	88,100	3.84	482,331	
Pennsylvania								
100% Lancaster-York	47,292							
100% Philadelphia	335,562							
100% Reading	128,523							
50% Other Penn. 1/,3/	59,054							
TOTAL ALL-RAIL MARKET			1,887,037	79.51	1,829,300	79.77	57,737	
Rail-Water Market								
Texas 1/		50	49,629	2.13	9,000	0.39	40,629	
New Mexico 1/		40	125	Neg.				
Arizona 1/		70	2,670	Neg.				
Nevada		95	99	Neg.				
Idaho		20	160	Neg.				
California		100	364,900	15.54	454,730	19.83		89,830
Oregon		100	14,172	.60				
Washington		100	29,245	1.25				
Utah		10	397	Neg.				
TOTAL RAIL-WATER MARKET			461,397	19.52	463,730	20.22		2,477
TOTAL ALL-RAIL AND RAIL-WATER MARKET			2,348,434	100.00 5/	2,293,030	100.00 7/	55,260	

Source: Report by Iron Age to the metalworking industry, "Steel Consumption in 1948."

1/ Estimated from Map I.

2/ Excluding Albany, Binghamton, Elmira, Buffalo, Rochester, Syracuse, Utica, and New York City.

3/ Excluding Erie, Pittsburgh, Sharon, New Castle, as well as those listed.

4/ Neg. means less than 0.05%.

5/ Negligible difference, 0.97% of total.

6/ Taken from Directory of Iron and Steel Works of the United States and Canada, 1948.

7/ Figures will not necessarily total 100% because of rounding.

Note: If Sparrows Point had only 60.53% of market, it would sell 1,421,420 tons which is over 100% of capacity.

and even expand existing capacity without suffering from unused plant capacity.

Some very limiting assumptions have been made. First, that prices remain as of July, 1949. Second, the rated capacity in the market remains as of 1948. Third, that rail rates remain similar to those of August, 1949. Fourth, consumption for the natural market area remains the same as in 1948.

Over a period of time there will be many changes. Steel prices will change. Pittsburgh and Buffalo might lower their price in order to extend their markets. New firms might be erected on the East Coast, and perhaps on the West Coast. Today, there is talk of a $200,000,000 integrated project in New England. Other established firms will increase their capacity Rail rates may be changed in order to afford Pittsburgh and other large producing districts access to the East Coast markets. Lastly, consumption in the various districts will change, at times increasing and during slack periods decreasing. Nonetheless, under an f.o.b. mill pricing system Maryland's steel manufacturers will be favorably located on sales of hot-rolled sheets.

Maryland's Steel Industry Under a Basing-Point System

Under a basing-point system what would sales be for Maryland's steel industry? Unfortunately, sufficient information was not obtainable to make our discussion more realistic. However, some past results may be used to draw tentative conclusions.

First, assume consumption in the metalworking industry in various states as of 1948. Second, assume that sales under a continuing basing-point system would be made more or less in proportion to the 1938 distribution. For example, in 1938 Baltimore supplied Massachusetts with 4.9% of Massachusetts purchases. Now, if proportional distribution is assumed, Baltimore would, under a continuing basing-point system, still supply Massachusetts

with 4.9% of her purchases. In 1948 Massachusetts consumed 287,051 tons of hot-rolled sheets and strip. Consequently it is assumed that under a basing-point system Maryland would supply this state with 4.9% of 287,051, or 14,066 tons. Now, by calculating in a similar fashion for each state, Baltimore's total sales to the metalworking industry under a basing-point system may be calculated. It should be remembered that these estimates may be fairly close, for under a continuing basing-point system steel mills would tend to retain old customers except during peak years of production or during war periods. There would of course be changes in distribution in a growing economy because of new customers entering the steel market.

Now examine Table 15. Column (1) contains the consumption figures in the metalworking industry for various states in 1948. Column (2) lists the percentage of sales to each state by Eastern Pennsylvania and Delaware mills. Column (3) is the actual sales made by Eastern Pennsylvania and Delaware firms using our assumption. This was calculated by multiplying columns (1) and (2).

Column (4) gives the percentage of sales made by Baltimore firms to various consuming districts, and column (5) shows the sales in tons (column (1) times column (4). Columns (6) and (7) are the percentage and actual sales by West Coast firms under our assumptions.

Column (8) is the natural market sales taken from Table 14. Columns (9) and (10) show the change in sales that could result if there were a shift from the basing-point system to a system of uniform f.o.b. mill pricing, with all previous base prices becoming f.o.b. mill prices, i.e., without increases of Baltimore prices or decreases of f.o.b. prices of competing mills.

The results are amazing. Under a basing-point system mills in the Sparrows Point natural market area could sell 906,973 tons of hot-rolled sheets and strip to the metalworking industry, while under an f.o.b. mill sys-

TABLE 15

1948 MARKETS UNDER F.O.B. AND BASING-POINT SYSTEM
ASSUMING DISTRIBUTION PROPORTIONAL TO 1938 1/

	(1) Total Consumption 1948	(2) % Received from East Pennsylvania and Delaware	(3) Tons Received from East Pennsylvania and Delaware	(4) % Received from Baltimore	(5) Tons Received from Baltimore	(6) % Received from West Coast	(7) Tons Received from West Coast	(8) Natural Market (tons)	(9) If Changed to F.O.B. Mill Pricing Gain (tons)	(10) Loss (tons)
Maine	4,557	2.5	114	11.0	501			456		159
New Hampshire	8,749			0.2	17			2,187	2,170	
Vermont	8,447			3.5	296					296
Massachusetts	287,051	5.2	14,927	4.9	14,066			287,051	258,058	
Rhode Island	23,839	0.2	48	8.0	1,907			23,839	21,884	
Connecticut	251,832	0.9	2,266	2.3	5,792			251,832	243,774	
New Jersey	325,447	0.8	2,604	37.6	122,368			325,447	200,475	
New York	681,742	0.7	4,770	13.7	93,361			227,873	129,742	
Pennsylvania	997,057	0.9	8,974	22.9	228,326			570,431	333,131	
West Virginia	46,859	Neg. 2/		0.3	141			4,686	4,545	
Delaware	12,291	29.8	3,663	16.6	2,040			12,291	6,588	
Maryland	150,304	5.5	8,267	34.5	51,855			146,565	86,443	
District of Columbia	2,488			15.5	386			2,488	2,102	
Virginia	29,859	0.9	269	20.4	6,091			22,394	16,034	
Ohio	1,383,791	Neg.		0.1	1,384					1,384
Kentucky	77,224			0.4	309					309
Indiana	708,255			Neg.						2,180
Illinois	1,090,245			0.2	2,180					
Michigan	1,967,594			Neg.						803
Wisconsin	803,297			0.1	803					
Missouri	198,432									1,292
Iowa	129,149			0.1	1,292					823
Minnesota	82,289			0.1	823					100
Kansas	25,028			0.4	100					298
Nebraska	29,828			0.1	298					
South Dakota	2,266									
North Dakota	802									
Montana	1,153			27.1	217	16.3	131	160		188
Idaho	802									
Wyoming	339									
Colorado	14,905									
Alabama	54,380									3,589
Georgia	47,854	0.4	191	7.1	3,398					1,548
Florida	18,000	3.1	558	5.5	990					45
Mississippi	2,521			1.8	45			8,938	8,366	
North Carolina	11,918	0.5	60	4.3	512			558	531	
South Carolina	2,235			1.2	27					127
Tennessee	63,538	Neg.		0.2	127					
Arkansas	3,369									20
Oklahoma	19,775			0.1	20					689
Louisiana	32,790			2.1	689			49,629	37,818	
Texas	99,257	0.2	198	11.7	11,613	Neg.		125	125	
New Mexico	312						456	397		242
Utah	3,969			5.5	183	11.5	88	99	6	
Nevada	104			4.4	5	84.2				
Washington	29,245	6.0	1,755	46.8	13,687	28.9	8,452	29,245	5,351	
Oregon	14,172	2.1	298	35.7	5,059	27.5	3,897	14,172	4,918	
California	364,900	0.5	1,824	39.0	142,311	35.2	128,445	364,900	92,320	
Arizona	3,814	11.9	454	8.3	317	19.1	728	2,670	1,171	
TOTAL	10,118,074	0.3	51,240	7.2	713,536	1.8	142,197	2,348,433	1,455,552	14,092
								NET GAIN	1,441,460	

1/ Sources: Report by Iron Age to the metalworking industry, "Steel Consumption in 1948."
81st Congress, Senate Report No. 44. Changes in Distribution of Steel 1940-47, 1949, Table 6, pp. 27-28.

2/ Neg. means less than 0.05%.

tem sales would be 2,348,424. This would represent a 1,[illegible],460-ton gain in sales.

If the limiting assumptions are removed, the results might be different. Nonetheless, as far as hot-rolled sheets are concerned, Maryland stands to be in a far better competitive position under f.o.b. mill pricing in the steel industry.

The reason for the expected big gain in sales by East Coast, especially Maryland, firms becomes obvious as we study Table 15 in detail. The East Coast firms absorbed very little freight. That is, on hot-rolled sheets only about 2% of the sales were made outside the Sparrows Point natural market. On the other hand Chicago, Cleveland, Youngstown, Pittsburgh, Buffalo, and others were selling in the Sparrows Point natural market by absorbing freight. If these outsiders were forced to withdraw from the Sparrows Point market, as they would be under a uniform mill pricing system without lowering their f.o.b. prices, the East Coast firms would gain considerably.

Interesting in this connection is the fact that due to heavy concentration of sales in the natural market area Sparrows Point probably would realize an average mill-net price of about $65.00 under the basing-point system, assuming the base price to be $65.00. At the very most, the average net return would not be less than $64.85 per ton on hot-rolled sheets, and it might be higher owing to collection of phantom freight in Texas sales on water transportation. Therefore, probably the net mill price averaged between $64.95 and $65.05.

Pittsburgh, Cleveland, and others probably realized an average mill-net much lower than their base price, and consequently might be more willing to lower their f.o.b. mill price far below their previous base price, if the f.o.b. mill system is permanently adopted and a buyers' market develops.

Such price reductions by competing mills would of course modify the conclusion reached upon the assumption of constant prices.

Some Other Steel Items

Thus far we have discussed only hot-rolled sheets and strip. What about some of Maryland's other steel products? Unfortunately not as much information is available on the other products as for hot-rolled sheets, but some estimates can be made.

Under the basing-point system cold-rolled sheets and strip were sold on roughly the same system as hot-rolled sheets and strip. There was, however, no base at Birmingham, Alabama, because the mill located there did not produce this product. Consequently, the Sparrows Point rail-natural market would include more of the South, i.e., South Carolina, Georgia, and Florida. Estimates will be made, however, from the natural market as drawn in Map I, for the addition of Georgia, Florida, and South Carolina would make little difference as they are small consumers of cold-rolled sheets and strip. In such a case, using the hot-rolled sheets and strip natural market, we find consumption by the metalworking industry in these areas totaled 1,734,268 tons, while rated capacity of all producers in the area was only 800,730, or about one half the demand. This means one of two things, the East and West Coast firms would either raise their price slightly, thus losing some of the market, or expand their production of cold sheets and strip by shifting resources inside the plant and by expanding the plant itself.

Calculating from the Sparrows Point natural market of hot-rolled sheets, we find the demand in 1948 for tin and terne plate and black plate was 1,750,037 tons, while capacity was 1,022,000. Sparrows Point, being in this case the only producer inside its hot-rolled sheet natural market,

would probably expand capacity for this product.

Rated capacity for steel plates in the natural market, as described by Map I, was 2,674,400 tons per annum in 1948. Consumption, however, in the same area was 1,627,892 tons in 1948. Actually the natural market would be a little larger under the assumptions of prices as of July, 1949, for Buffalo is not a large producer of plates. Consequently Sparrows Point or other East Coast firms would capture some of New York State's consumption. Thus, on a 1948 basis, sales would probably amount to 1,800,000, which is only about 67% of capacity. This figure represents only consumption by the metalworking industry. Probably total sales in the area would be about 2,500,000 tons, or about 100% capacity.

What has been said thus far for the products of Maryland steel manufacturers would be much the same for other products of steel. In some cases the demand (at given prices) would not be in excess of capacity, but in most cases demand would be a great deal higher than demand under a basing-point system. Maryland and other East Coast plants should gain at the expense of Midwestern mills.

Expansion, Relocation, and Establishment of East Coast Mills

It may be safe to expect that a large expansion of the steel industry in one form or another will take place on the East Coast. Since there is a demand for nearly 10,000,000 tons of finished steel products in the East Coast market (our "rail natural market") by the metalworking industry alone, we can estimate total demand to be about 15,000,000 tons per annum using 1948 figures. Now it took about 86,000,000 tons of ingots to produce 66,000,000 tons of finished products in 1948, so it may be estimated that it would take about 20,000,000 tons of ingots to produce 15,000,000 tons of finished steel products. The East Coast has an ingot capacity of about 11,000,000 tons, so

there is room for a large expansion in capacity here, nearly 100%. 1/

However, this expansion may not be necessary for ingots as will be pointed out below.

Expansion on the East Coast will probably take place in three forms:

(a) Expansion by already established East Coast mills.
(b) Establishment of new mills.
(c) Relocation of finishing mills by mills outside the coastal area.

It would not be surprising to see the East Coast steel industry expand by as much as 75% in one way or another within the next few decades. One may venture a guess that Maryland will expand its present steel industry by a good 50% in the next decade. In the last decade, during a few years of depression and years of shortages caused by the war, the Maryland steel industry expanded by more than 40%, so a 50% expansion in the next 10 years is not impossible, especially since it would be extremely favored by an f.o.b. mill pricing system.

It might well happen that the Sparrows Point mill will be the largest mill in the world before 1960, if f.o.b. mill pricing is established throughout the steel industry. However, it is doubtful if Maryland will represent as large a proportion of the East Coast production as it does today. Probably expansion will go on at a faster rate in other sections of the East Coast. However, since the steel industry represents a larger proportion of employment in Maryland than elsewhere on the East Coast, the State will be most vitally affected by a shift to f.o.b. mill pricing. On the basis of the possible expansion estimates, 10,000 new jobs might well be created in

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1/ The ingot capacity figures were taken from a map prepared by the Department of Commerce, Office of Domestic Commerce, "Steel Producing Plants as of January 1, 1947." The 1948 figures would be slightly higher. Total consumption was taken from "Steel Consumption in 1948," op. cit.

the steel industry, and another 10,000 due to indirect effects of the original 10,000. 1/

It is to be noted that this increase in employment and capacity is predicated on a change to f.o.b. mill pricing. Other factors may cause a much greater expansion, such as development of ore deposits in South America, Labrador, and Scandinavia, or new technological improvements making limestone and coal costs a smaller percentage of the total costs.

1/ See Neal, op. cit. It is assumed in this report that for every job created in manufacturing, one will be created in some teritary industry.

CHAPTER VI

FABRICATED METAL PRODUCTS

The second largest group of manufacturers reporting that they would be affected by a shift to f.o.b. mill pricing was the fabricated metal products industry. Nine of the 18 firms answering the questionnaire noted that they would be adversely affected by a compulsory shift to f.o.b. mill pricing. The estimated loss of jobs was 195. Only one of the 18 reporting manufacturers sells on a basing-point system, but the others buy raw materials from industries employing basing-point systems. In nine cases the raw material costs were expected to increase to some extent as a result of a shift to uniform f.o.b. mill pricing.

The questionnaire returns from this industry reported that about a 10% increase in steel prices had taken place since the adoption of f.o.b. mill pricing by the steel industry. The reasons for this increase are explained by the following:

(1) Increased prices of steel in the United States as a whole, due to an increase in published base prices and to the concurrent price increase mentioned in Chapter V.

(2) The purchase of steel from mills more distant from the fabricator than the nearest ex-base supplier. Since the more distant mills did not absorb freight, the purchasers had to pay the extra freight charge previously absorbed.

(3) The increase in transportation rates.

The first and third reasons, of course, were due to an economic situation where demand exceeded supply in the Nation as a whole. Consequently steel prices increased, and most likely would have increased regardless of the pricing system adopted.

The second reason is of particular interest, because this increase in cost was directly due to a change to the f.o.b. mill pricing system. This explanation may be broken into two parts:

(1) Fabricators could not obtain a certain product from the local mills because the local mills, although producing this item, were in short supply.

(2) The fabricator could not obtain a certain item from the local mill because the specifications desired were not available locally.

Examining the first of these reasons in more detail, we must remember that some of the short supply in steel was due to steel mills still selling outside their natural market. If f.o.b. mill pricing had been compulsory, steel mills probably would have dropped the distant fabricators in order to gain the local fabricators. In such a case a great deal of "swapping" of customers would have taken place much more quickly.

Even if swapping on a large scale had taken place, the East Coast mills would have been unable to supply their natural market customers as their capacity was not large enough to meet local demands. Consequently, some local fabricators were forced to buy from the more distant suppliers. However, as the backlog of orders is met and as demand becomes more normal, most of the fabricators will be able to purchase from local producers. In the interim a hardship might be faced by those fabricators forced to buy from the distant suppliers.

Even in the long run it is conceivable that some firms will not be able to purchase from the local mills because they are considered "unfriendly" by the local mills. However, such cases will be the exception rather than the general rule, and in most cases local warehouses will be able to supply these fabricators as competition increases.

A second explanation of why fabricators cannot obtain supplies from the local firm is that the local suppliers do not produce the desired specifications. For example, Sparrows Point was a base for sheets but it does not produce all gauges and sizes consumed in this area. Consequently, fabricators

must buy from the more distant firms and pay extra freight.

If the local mills will not produce the desired specifications and local warehouses are unable to supply the fabricators, local buyers will be at a disadvantage. A fabricator so affected must absorb the increase in cost necessitated by buying from a distant mill, or transfer his firm. In many cases the other economies of location may make it unprofitable to relocate. If the increased costs are passed on in part to the consumer, the problem will not have an important effect on the Maryland economy. According to the questionnaire returns, most materials for which Sparrows Point was a base can be purchased in the desired specification.

Firms Relocating in Maryland or Moving Away from Maryland

One manufacturer claimed that fabricators would relocate near sources of supply if the shift to f.o.b. mill pricing remains intact for the steel industry. In other words, a movement of fabricators into Baltimore or Sparrows Point may be expected. However, if such a migration takes place it will be due to the increase in freight rates or other costs rather than the change to f.o.b. mill pricing.

The selection of a site for a mill depends on many factors, including (1) nearness to sources of materials; (2) nearness to the consuming market; and (3) availability of labor, land, etc.

The fabricator today may be chiefly interested in the first two reasons, but he will attempt to minimize total costs. Transportation rates have increased considerably over the last few years, so this cost element is now a more important factor in determining a plant location.

It should be pointed out that rail rates on the finished or fabricated products are usually higher than on the raw materials. Therefore, it would be more economical to locate in the center of the consuming market than

at the source of the raw materials, all other costs being equal at all sites. For example, a firm producing steel containers chiefly for the Philadelphia market would find it more economical to locate in that area rather than near a source of steel. Total transportation expenses could be minimized in this way, since it is cheaper to ship steel than the fabricated end product (assuming again that all other costs, i.e. labor, rent, are equal in both instances). There seems to be no reason why firms should relocate, en masse, nearer steel mills, if there is a shift to f.o b. mill pricing. Rather they will shift their sources of supply from the distant to the nearer steel suppliers. If there is any relocation it will be chiefly by those in the steel industry or by other basing-point suppliers.

One questionnaire observed that a shift to f.o.b. mill pricing would cause a centralization of industry. This is very unlikely. What is much more likely is a decentralization by steel producers. The increase in transportation rates and the discontinuance of fabrication-in-transit could, however, cause a swing to more centralization of industry. Consequently, if freight rates remain at their present increased level, f.o.b. mill pricing is apt to dampen the centralization due to this higher transportation cost.

Three firms who sell in a widely separated market claim the best place to locate would be near the source of steel supply. If all other factors are equal, it would be more economical to locate at a steel mill; but, it would be more economical regardless of the system of pricing used by steel. Consequently, a shift to f.o.b. mill pricing will not affect this movement.

Summary

Although nine firms feared an adverse effect, it is safe to say that a shift to f.o.b. mill pricing will not affect most fabricators in

Maryland. While steel costs have increased, this is mainly due to a general increase in steel prices or a temporary shortage of supply. Naturally many fabricators will have to change their sources of supply. In some instances they will be able to obtain steel more cheaply by relying on truck or other cheaper means of transportation. It is highly unlikely that there will be a major shift of firms in the fabricated metal products industry due to f.o.b. mill pricing. A few firms will be hurt because they are unable to obtain local products, but this should be slight. Consequently, we can estimate no great change in employment in this industry due to a shift to f.o.b. mill pricing.

CHAPTER VII

THE OTHER AFFECTED INDUSTRIES

Lumber and Wood Products

The lumber and wood products industry in Maryland should not be noticeably affected if f.o.b. mill pricing is established throughout the industry. In some sections of the country this industry may well be affected for a great deal of lumber is sold on a basing-point system. However, Maryland is such a small producer that most of its production can be sold within a short radius of the mills.

In this major industry group, eight questionnaires were received from firms with a total employment of 824. While the returns represent only 15% of the industry's total employment, those firms reporting expected no substantial increase or decrease in sales even if f.o.b. mill pricing were adopted, although sales are currently on a basing-point system.

According to the 1947 Census of Manufactures, the states south of Maryland (Virginia, West Virginia, North Carolina, South Carolina, Georgia, and Florida) produce about 97% of the industry's total output in the South Atlantic area, while Maryland produces only about 3%. Consequently, Maryland is in a position to serve the neighboring northern importers of lumber products. As lumber production is limited by natural resources, there may be very little expansion in Maryland, but a decline in the industry should not be expected as a result of compulsory f.o.b. mill pricing.

Paper and Allied Products

The replies to the questionnaires from firms in this industry indicated only a slight estimated drop in sales if f.o.b. mill pricing became compulsory, though most paper is sold on a zone-pricing system. One large firm said that any loss in sales in the Midwest, due to a shift to f.o.b. mill

pricing, would be largely balanced by increases in the Washington, D. C., area.

Consumption and production figures were not available for the paper industry, but some conclusions may be drawn from Class I Rail carrier tonnage figures. Table 16 shows the origin and termination of tonnage for various paper products in Maryland and neighboring states during 1948. These figures include most of the tonnage shipped by rail in 1948.1/ Export and import figures were also obtained, but in the cases used they were negligible. 2/

It would appear from Table 16 that Maryland's imports of paper items are more than her exports. On the basis of rail shipments, Maryland appears to be in a favorable position if f.o.b. mill pricing is made compulsory for the paper industry. 3/

1/ Origin and termination by Classes II and III roads amounted to only 4.66% of all freight originated by all U. S. railways. See U. S. Department of Commerce, Pulp, Paper and Board Industry Report, January 1948, p.28.

2/ According to Department of Commerce data, imports into the Port of Baltimore were less than 350 tons for all paper products, except newsprint. Newsprint, which is imported largely from Canada, is not included in the list of products considered in Table 16. Exports from Baltimore for the first three quarters of 1948 for the various products used in Table 16 were

Printing paper	887 tons
Wrapping paper	55
Paper bags	198
Paper and paper articles, n.o.s.	1,379
Paperboard, fibreboard and pulpboard	489
Wallboard	33
Building paper, and prepared roofing materials	105
Paper containers, n.o.s.	123

3/ Unfortunately, the Bureau of Motor Carriers, of the Interstate Commerce Commission, could not supply similar figures for truck tonnage. Consequently, the only basis for estimating deficit or surplus areas was the rail tonnage figures. Production and sales figures were not available for the specified products used in the discussion, so the percentage of total sales shipped by rail is not included. The reader should not draw definite conclusions from the rail tonnage figures, but in many cases these figures may very well serve as indicators for determining surplus or deficit areas.

TABLE 16

ORIGIN AND TERMINATION OF PAPER PRODUCTS SHIPPED
BY FIRST-CLASS RAIL CARRIERS, IN TONS, 1948

	Maryland	District of Columbia	Virginia	West Virginia	Delaware	New Jersey	Pennsylvania
(a) Printing Paper							
Rail tonnage originated	75,937	1,713	56,471	4,369	429	9,469	364,207
- Rail tonnage terminated	40,588	64,430	49,975	1,925	626	173,790	410,146
= Surplus	+ 35,349		+ 6,496	+ 2,444			
Deficit		- 62,717			- 197	- 164,321	- 45,939
(b) Wrapping Paper							
Rail tonnage originated	9,808	132	130,976	1,268	13	63,919	50,431
- Rail tonnage terminated	24,408	7,477	51,613	33,426	1,282	85,274	175,078
= Surplus			+ 79,366				
Deficit	- 14,600	- 7,345		- 32,158	- 1,269	- 21,655	- 124,647
(c) Paper Bags							
Rail tonnage originated	996	17	37,975	27,566	373	4,825	45,905
- Rail tonnage terminated	29,662	7,939	24,566	9,659	2,838	47,094	90,551
= Surplus			+ 13,409	+ 17,907			
Deficit	- 28,666	- 7,922			- 2,465	- 42,269	- 44,646
(d) Paper and Paper Articles, Not Otherwise Specified							
Rail tonnage originated	3,715	1,784	7,123	785	11,211	24,902	187,524
- Rail tonnage terminated	19,685	17,837	30,163	6,505	1,427	58,614	124,344
= Surplus					+ 9,784		+ 63,180
Deficit	- 15,970	- 16,043	- 23,040	- 5,720		- 33,712	
(e) Paperboard, Fibreboard, and Pulpboard							
Rail tonnage originated	39,969	77	424,979	9,251	621	141,392	165,725
- Rail tonnage terminated	69,556	11,185	100,380	110,298	609	318,803	458,078
= Surplus			+ 324,299		+ 12		
Deficit	- 29,587	- 11,108		- 101,047		- 177,411	- 292,353
(f) Wall Board							
Rail tonnage originated	137,035	1,566	250,381	753	18	55,155	141,953
- Rail tonnage terminated	72,325	36,543	119,946	60,982	11,377	116,667	296,317
= Surplus	+ 64,710		+ 130,885				
Deficit		- 34,977		- 60,229	- 11,359	- 61,512	- 154,396
(g) Building Paper and Prepared Roofing Material							
Rail tonnage originated	72,753	71	3,618	6,966	19,834	348,551	185,296
- Rail tonnage terminated	23,897	6,833	72,777	66,179	5,827	47,467	186,835
= Surplus	+ 48,856				+ 14,007	+ 301,004	
Deficit		- 6,762	- 69,159	- 59,213			- 1,539
(h) Fibreboard and Paperboard Containers							
Rail tonnage originated	26,081	65	12,123	17,937	394	151,599	150,447
- Rail tonnage terminated	52,959	5,014	48,928	42,869	8,654	104,033	166,273
= Surplus						+ 47,566	
Deficit	- 26,878	- 4,949	- 36,805	- 24,932	- 8,260		- 15,826

Source: Form Q-550, "Tons of Freight Originated and Tons Terminated in Carloads by Classes of Commodities and by Geographical Areas - Class I Steam Railways," Interstate Commerce Commission, Bureau of Transport Economics and Statistics, Four Quarters, 1948.

For five of the products listed in Table 16, Maryland appears to be a deficit area, while in other cases neighboring states appear to be deficit areas, and therefore, able to absorb the Maryland surplus.

On the basis of this information, it may be reasonably safe to assume that the Maryland paper producers, as a group, should not be adversely affected by a shift to f.o.b. mill pricing, and could possibly experience an increase in sales.

Chemicals and Allied Products

In the chemical industry the loss of jobs is estimated at about 2%, or 215 men, if a shift to f.o.b. mill pricing were to take place. This estimate is drawn from the replies to the questionnaire submitted by firms employing a major part of the workers in the chemical industry. A large portion of the firms reporting indicated that they would not be affected by a compulsory change to f.o.b. mill pricing, but firms manufacturing industrial chemicals, fertilizers, and paint chemicals indicated a slight decrease in sales.

Fertilizer, which is sold on a zone-price system, is produced in large quantities in Maryland. In Table 17 (a) the rail shipments of fertilizers originating and terminating in Maryland are shown. These figures give indications that Maryland and some neighboring states are surplus areas. Consequently, a drop in sales and a corresponding drop in employment might be expected if zone pricing were discontinued in favor of f.o.b. mill pricing.

Some paint materials such as titanium dioxide, cadmium colors, and chrome colors are sold on a zone-pricing system. As Table 17 indicates a Maryland surplus for these and others paint products, we might expect a slight decrease in sales and employment if f.o.b. mill pricing were adopted throughout the industry.

According to Table 17 (c) and (d), Maryland is also a surplus area for

TABLE 17

ORIGIN AND TERMINATION OF CHEMICAL PRODUCTS SHIPPED BY FIRST-CLASS RAIL CARRIERS, IN TONS, 1948

	Maryland	District of Columbia	Virginia	West Virginia	Delaware	New Jersey	Pennsylvania
(a) Fertilizers							
Rail tonnage originated	370,154	16,725	1,767,315	272,502	15,076	268,201	387,945
- Rail tonnage terminated	315,457	3,184	897,766	90,864	23,936	157,793	400,843
= Surplus	+ 54,697	+ 13,541	+ 869,549	+ 181,638		+ 110,408	
Deficit					- 8,860		- 12,898
(b) Paints, Varnishes, Paint Material, and Putty							
Rail tonnage originated	28,943	34	11,645	65,626	48,737	74,872	170,593
- Rail tonnage terminated	20,729	623	19,549	13,630	1,907	100,954	102,298
= Surplus	+ 8,214			+ 51,696	+ 46,830		+ 68,295
Deficit		- 589	- 7,904			- 26,082	
(c) Sulphuric Acid							
Rail tonnage originated	100,523	--	251,351	26,075	23,316	106,031	330,379
- Rail tonnage terminated	72,530	196	140,421	92,564	10,785	169,166	331,724
= Surplus	+ 27,993		+ 110,930		+ 12,531	+ 52,168	
Deficit		- 196		- 66,489			- 1,345
(d) Acids, Not Otherwise Specified							
Rail tonnage originated	2,700	--	9,409	18,348	23,402	155,878	99,919
- Rail tonnage terminated	18,805	410	24,873	30,678	9,134	103,710	92,502
= Surplus					+ 14,168		+ 7,417
Deficit	- 16,105	- 410	- 15,464	- 12,330		- 63,085	

Source: Form Q-550, "Tons of Revenue Freight Originated and Tons Terminated in Carloads by Classes of Commodities and by Geographical Areas - Class I Steam Railways," Interstate Commerce Commission, Bureau of Transport Economics and Statistics, Four Quarters, 1948.

sulphuric acid; however, other acid products could potentially experience a gain in sales if f.o.b. mill pricing were established.

According to the questionnaire returns and interviews, there seems to be no reason for any serious alarm. While some establishments in the chemical industry may experience a loss of customers, other could make up for part of the resulting loss in employment. In any event the loss in sales should not cause any serious unemployment or capital loss problems for the industry as a whole.

Rubber and Allied Products

Most of the firms in the rubber industry returning questionnaires did not believe that they would be affected; however, two firms reported that they would be unfavorably affected by a change to f.o.b. mill pricing.

One of the firms, which produces rubber soles and heels, reports that it would be forced to locate branch warehouses in Pennsylvania in order to compete with other firms in that region. However, since this firm sells on a haphazard system of freight absorption, in all probabilities it would not be affected by a law declaring the basing-point or zone-pricing system to be illegal. 1/

The other firm reporting an expected loss of sales under f.o.b. mill pricing is a large tire and tube company. This company sells at present on a single-zone system, with the United States as the zone. Tires have a uniform delivered price anywhere in the United States, but the delivered price is not an identical delivered price. Since all competitors do not quote identical delivered prices, it is doubtful if this firm would be affected under our assumption concerning the law.

1/ See assumptions made in Chapter III concerning the law.

Stone, Clay, and Glass Products

According to questionnaire returns, a major portion of the firms in the stone, clay, and glass products industry have sold in the past and now sell on an f.o.b. mill basis. Furthermore, most firms reported that their supplies were also purchased f.o.b. mill. Consequently, these firms will not be affected by an industry shift to f.o.b. mill pricing.

Two groups of firms, however, reported that their sales were made on a basing-point pricing system. These firms produce cement and lime.

Replies from the lime industry in Maryland indicated a 20% drop in employment if f.o.b. mill pricing were to become compulsory. It is the author's opinion that this is an overpessimistic estimate on the part of the reporting parties.

The cement industry in Maryland expected no adverse affects if a system of f.o.b. mill pricing were continued for the entire industry. This industry adopted f.o.b. mill pricing following the Supreme Court Cement Case in April, 1948. Since that time Maryland manufacturers have noticed no loss in sales due to the shift to f.o.b. mill pricing. This was, in large measure, due to the excess postwar demand for cement. It is doubtful, however, if they would have lost in total sales, inasmuch as Maryland appears to be a deficit area for cement. Furthermore, the states surrounding Maryland constitute a deficit area.

Table 18 (a) shows the origin and termination of Class I freight shipments of cement. According to these data, it appears that the Maryland cement industry has reason to expand. No plans for the expansion, however, were reported to the State Planning Commission.

Table 18 (b) shows the origin and termination of lime shipments by Class I Steam Railroads in Maryland and neighboring states. It would appear from these data that Maryland is a heavy deficit state. Consequently, there

TABIE 18

ORIGIN AND TERMINATION OF CEMENT AND LIME SHIPPED BY FIRST-CIASS RAIL CARRIERS, IN TONS, 1948

	Maryland	District of Columbia	Virginia	West Virginia	Delaware	New Jersey	Pennsylvania
(a) Cement							
Rail tonnage originated	528,067	62	333,918	325,575	411	34,338	6,598,466
- Rail tonnage terminated	650,401	308,520	576,376	436,136	95,999	1,384,917	2,390.650
= Surplus							+ 4,270,816
Deficit	- 122,334	- 308,458	- 233,458	- 110,561	- 95,588	- 1,350,379	
(b) Line							
Rail tonnage originated	7,615	--	353,913	293,533	--	5,485	581,068
- Rail tonnage terminated	112,500	12,806	153,369	193,866	29,812	111.116	580.035
= Surplus			+ 200,044	+ 99,677			+ 1,033
Deficit	- 104,885	- 12,806			- 29,812	- 105,631	

Source: Form Q-550, "Tons of Freight Originated and Tons Terminated in Carloads by Classes of Commodities and by Geographical Areas - Class I Steam Railways," Interstate Commerce Commission, Bureau of Transport Economics and Statistics, Four Quarters, 1948.

should be no loss in sales under an f.o.b. mill pricing system. It is more likely that a substantial gain would take place.1/

Conclusion

Unfortunately, not a great deal of information was available on the five industries discussed in this chapter, so heavy reliance was placed on the questionnaire returns, and on the information supplied by the U. S. Department of Commerce and the Interstate Commerce Commission.

The questionnaire returns from firms using a basing-point or zone system of pricing tended to be very pessimistic. One of the reasons for this pessimism is because a firm's manager will often see the loss of distant customers to competitors without noticing the gains that may result if competitors are priced out of his market. In some cases, of course, a firm will be at a disadvantage if it is placed on an f.o.b. mill basis, but in other cases firms will experience gains.

One official reported that his firm would experience a sales drop of 30% to 40% if his industry continued to sell on an f.o.b. mill basis. Later, in a followup interview, the same official suggested the possibility of a gain in sales, if the f.o.b. mill pricing system were continued. His first estimates were based on the fact that Midwestern customers would be lost to Chicago competitors. He overlooked the fact that the Chicago competitors would lose East Coast customers to him. In this case, the gain in local customers would more than offset the loss of distant customers.

Other firms admitted that they would pick up a great deal of local business if their industry shifted to f.o.b. mill pricing, but they did not

---

1/ Exports were neglected in the calculations for they represent only a small percentage of the total transactions. In the first nine months of 1948 lime exports from Baltimore amounted to 4,944 tons. Cement exports amounted to 56,461 tons during the same period.

know if the loss to competitors would be greater than the gain. Consequently, they preferred to remain on a basing-point system rather than take a chance.

It should be pointed out that demand for a product will remain about the same whether a system of f.o.b. mill pricing is established or whether the basing-point system continues. Some firms, of course, will lose customers if the industry shifts from a basing-point pricing system to f.o.b. mill pricing; but every lost customer for one firm will be a gain for some other. Consequently, all firms in an industry cannot be hurt. However, we have tried to point out in this and preceding chapters how Maryland firms will be affected in particular. There appears to be little justification for the overall pessimism felt by businessmen immediately following the April, 1948 Supreme Court decisions.

CHAPTER VIII

SUMMARY

The study of the effect on the Maryland manufacturers of a compulsory shift to f.o.b. mill pricing has indicated that a major portion of the manufacturing industries of the State will be affected very slightly.

Some sections of the chemical and fabricated metals industry could very well be adversely affected if an f.o.b. mill pricing system were made compulsory, but the adverse affects should not be large. On the other hand, one might expect a slight expansion in the paper, cement, and lime industries, which might more than overbalance any loss in chemicals or metal fabricating.

The one industry that would be very noticeably affected by a shift to compulsory f.o.b. mill pricing is the iron and steel industry. Maryland steel manufacturers could greatly benefit by f.o.b. mill pricing. An expansion of over 50% in Maryland's steel capacity is a reasonable guess if the basing-point system is abolished in favor of f.o.b. mill pricing.

Of course, while overall sales or employment in an industry may not be seriously affected, a large reshuffling or swapping of customers may well occur under f.o.b. mill pricing. The local mill will tend to sell products in or near Maryland, and where possible, to buy supplies from local producers.

This "drawing in" of sales by local producers will tend to minimize transportation costs, and consequently many local firms will either realize a larger average mill-net price, or will lower their f.o.b. mill price so that customers will be able to purchase more cheaply, or a combination of both will occur. This minimization of transportation cost might conceivably result in lower prices to the final consumer, or a larger take-home pay for the Maryland industrial worker, or both.

A point-by-point summary of the effect on Maryland follows:

1. A major portion of Maryland manufacturers will not experience any effect because: a) They do not sell on any identical delivered price system; and b) They purchase little or no supplies from firms selling on a basing-point or zone system.
2. Other manufacturers who sell on a basing-point or zone system will experience only a slight loss or gain in sales because the result of "swapping" customers with competitors will tend to balance. That is, the loss of distant customers will be balanced by the gain in local purchasers.
3. Manufacturers who purchase a major portion of their supplies from firms selling on a zone or basing-point system will shift their sources of supply to the nearest producer wherever possible. If the nearest supplier is not in a position to fill orders placed by a manufacturer, or will not supply him for any other reason, the manufacturer may experience an increase in the cost of supplies.
4. The steel industry may expand as much as 50% in the next ten years, because of the apparent deficit production on the East Coast.
5. Transportation costs will tend to be minimized, thereby causing larger mill-net receipts, or lower prices to consumers, or both.
6. Baltimore City, Baltimore County, and Anne Arundel County may experience an increase in employment as a result of expansion in the steel industry. The total increase in employment could be over 10,000 directly, and many more indirectly.
7. The other sections of Maryland should not be noticeably affected, favorably or adversely.

APPENDICES

APPENDIX A

HAS YOUR BUSINESS BEEN AFFECTED BY THE BASING-POINT DECISIONS?

Please return your reply by July 24, 1949 to:

Mr. I. Alvin Pasarow, Director
Maryland State Planning Commission
100 Equitable Building
Baltimore 2, Maryland

Name of Firm_____

Address of Main Office_____

Plants in Maryland[1/]

Plant Location[2/]	No. of Employees	Principal Products

PART I - EFFECT ON SALES

1. Did you, prior to April 1948, sell any important proportion (10% or more of your total product) on a price basis like:

   a) A basing-point system identical with that used by your competitors?

   Yes [ ] No [ ] (If answer is yes, fill out (1) and (2) below.)

(1) Products so sold (list)	(2) Per cent of your total production (or sales)

   (Please check those products which are now sold at prices f.o.b. shipping point.)

   b) A zone price system identical or very similar to that used by your competitors?

   Yes [ ] No [ ] (If answer is yes, fill out (1) and (2) below.)

(1) Products so sold (list)	(2) Per cent of your total production (or sales)

   (Please check those products which are now sold at prices f.o.b. shipping point.)

1/ If more convenient, use a separate form for each Maryland plant. Additional copies of this form are available on request.

2/ If more space is needed, please use back of page.

c) (Answer if (1a) and (1b) do not cover all important cases.) A system of delivered prices used by both you and your competitors which frequently does cover all freight costs?

Yes [ ] No [ ] (If answer is yes, fill out (1) and (2) below.)

(1) Products so sold (list) (2) Per cent of your total production (or sales)

_____ _____

_____ _____

_____ _____

2. In your opinion has your volume of business, on the items checked in question (1), been affected by the shift to prices f.o.b. shipping point (or at delivered prices which cover all transportation costs)?

Yes [ ] No [ ] (If answer is yes, fill out (a), (b), and (c) below.)

a) Products affected b) Per cent increase[1/] (+) or decrease (-) in sales for the item listed

_____ _____

_____ _____

_____ _____

c) This has caused [ ] an increase [ ] a decrease of my employment by _____.

3. In your opinion will your volume of business, on items listed in question (1), be effected if prices f.o.b. shipping point are adopted throughout?

Yes [ ] No [ ] (If answer is yes, fill out (a), (b), and (c) below.)

a) Products affected b) Per cent increase[1/] (+) or decrease (-) in sales for the item listed.

_____ _____

_____ _____

_____ _____

c) I estimate this will cause [ ] and increase [ ] a decrease of my employment by _____.

4. Remarks relating to Part I (if necessary) _____

_____

_____

_____

1/ In view of competitors having to charge full freight from their plants.

PART II - EFFECT ON PURCHASES

5. Did you, prior to April 1948, buy any important proportion of the materials and parts you use in production (15% or more of the total cost of materials and parts) on a price basis like:

a) A basing-point system?

Yes ☐ No ☐ (If answer is yes, fill out (1), (2), and (3) below.)

(1) Product so bought	(2) Source prior to April 1948	(3) Per cent of your total cost

(Please check those products which you now buy at prices f.o.b. shipping point.)

b) A zone price system?

Yes ☐ No ☐ (If answer is yes, fill out (1), (2), and (3) below.)

(1) Products so bought	(2) Source prior to April 1948	(3) Per cent of your total cost

(Please check those products which you now buy at prices f.o.b. shipping point.)

c) (Answer if (5a) and (5b) do not cover all important cases.) Prices which you are fairly sure require your suppliers to absorb some freight or allow your suppliers to collect more than actual freight incurred by them?

Yes ☐ No ☐ (If answer is yes, fill out (1), (2), and (3) below.)

(1) Products so bought	(2) Source prior to April 1948	(3) Per cent of you total cost

(Please check those products which you now buy at prices f.o.b. shipping point.)

6. Has your cost, so far as freight alone is concerned, been affected due to your suppliers (of items checked in question 5) changing to a system of prices f.o.b. shipping point?

Yes ____ No ____ (If answer is yes, fill out (a) and (b) below.)

a) Purchased items | b) Per cent increase (+) or decrease (-) in cost

_____ | _____

_____ | _____

_____ | _____

. Has this caused you to shift to another source (or sources) of supply?

Yes ____ No ____ (If answer is yes, fill out (a), (b), and (c) below.)

a) Purchased items | b) New source | (c) Per cent decrease in cost over previous sources

_____ | _____ | _____

_____ | _____ | _____

_____ | _____ | _____

. Would your cost, so far as freight alone is concerned, be affected if all your suppliers (of items listed in question 5) changed to a system of prices f.o.b. shipping point?

Yes ____ No ____ (If answer is yes, fill out (a) and (b) below.)

a) Purchased items | b) Per cent increase (+) or decrease (-) in cost

_____ | _____

_____ | _____

_____ | _____

. Would any of your answers to 6 or 8 be changed if you now shifted to another source of supply?

Yes ____ No ____ (If answer is yes, fill out (a), (b), and (c) below.)

a) Purchased items | b) New source | c) Per cent decrease in cost over present source

_____ | _____ | _____

_____ | _____ | _____

_____ | _____ | _____

0. Could you reduce costs on any items (listed in question 5) by shifting to a cheaper means of transportation?

Yes ____ No ____ (If answer is yes, fill out (a), (b), and (c) on following page.)

a) Purchased items	b) Present transportation	c) Per cent decrease in cost over present transportation costs

11. Remarks relating to Part II (if necessary)_____

_____

_____

PART III - EFFECT ON COMPANY POLICY

12. Has your consideration of the shift towards an f.o.b. price basis caused you to change your plans to:

a) Expand your plant? Yes [ ] No [ ] (If answer is yes, please explain whether to speed up or defer expansion, whether to enlarge or reduce amount of previously planned expansion, and the reasons for your change in plans.)

_____

_____

_____

b) Relocate your plant? Yes [ ] No [ ] (If answer is yes, please explain place you would consider locating and reason for considering change.)

_____

_____

_____

c) Establish [ ] (yes) or discontinue [ ] (yes) one or more branch plants? (If either box is checked, please give reason for considering change.)

_____

_____

_____

13. Have you any reason to believe that any new or old competitors will locate or relocate in Maryland due to any change to prices f.o.b. shipping point?

Yes [ ] No [ ] (If answer is yes, please explain in space below.)

_____

_____

_____

14. Your comments, if any, on the effect of f.o.b. pricing on your industry in Maryland or elsewhere.

_____

_____

_____

_____

Prepared by _____

Position _____

Date _____

Telephone inquiries concerning the answering of this questionnaire may be referred to Mr. Ray S. Kelley, Jr. at the State Planning Commission, Lexington 6411.

APPENDIX B

S. 1008

81st CONGRESS
1st Session

IN THE SENATE OF THE UNITED STATES

August 8 (legislative day, June 2), 1949
Ordered to be printed with the amendments of the House of Representatives numbered

---

AN ACT

To define the application of the Federal Trade Commission Act and the Clayton Act to certain pricing practices.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Federal Trade Commission Act (38 Stat. 719, as amended; 15 U. S. C. 45) is amended by adding at the end of section 5 (a) the following: "It shall not be an unfair method of competition or an unfair or deceptive act or practice for a seller, acting independently, to quote or sell at delivered prices or to absorb freight: Provided, That this shall not make lawful any combination, conspiracy, or collusive agreement; or any monopolistic, oppressive, deceptive, or fradulent practice, carried out by or involving the use of delivered prices or freight absorption."

Sec. 2. Section 2 (a) of an Act entitled "An Act to supplement existing laws against unlawful restraints and monopolies and for other purposes", approved October 15, 1914 (38 Stat. 730, as amended; 15 U. S. C. 13), is amended by substituting for the period at the end thereof a colon and adding thereto the following: "And provided further, That it shall not be an unlawful discrimination in price for a seller, acting independently--

"A. to quote or sell at delivered prices if such prices prices are identical at different delivery points or if differences between such prices are not such that their effect upon competition may be that prohibited by this section; or

"B. to absorb freight to meet the equally low price of a competitor in good faith (1) (except where the effect of such absorption of freight will be to substantially lessen competition) (except where such absorption of freight would be such that its effect upon competition may be that prohibited by this section), and this may include the maintenance, above or below the price of such competitor, of a differential in price which such seller customarily maintains."

Sec. 3. Section 2 (b) of an Act entitled "An Act to supplement existing laws against unlawful restraints and monoplies and for other purposes", approved October 15, 1914 (38 Stat. 730, as amended; 15 U. S. C. 13), is amended to read as follows:

"(b) Upon proof being made, at any hearing on a complaint under this section, that there has been discrimination in price the effect of which upon competition may be that prohibited by the preceding subsection, or discrimination in services or facilities furnished, the burden of showing justification shall be upon the person charged with a violation of this section, and unless justification shall be affirmatively shown, the Commission is authorized to issue an order terminating the discrimination: Provided further, That a seller may justify a discrimination (2) (~~other than a discrimination which will substantially lessen competition~~) (if the discrimination is not such that its effect upon competition may be that prohibited by this section) by showing that his lower price or the furnishing of services or facilities to any purchaser or purchasers was made in good faith to meet an equally low price of a competitor, or the services or facilities furnished by a competitor (3), and this may include the maintenance, above or below the price of such competitor, of a differential in price which such seller customarily maintains."

Sec. 4. As used in this Act--

A. The word "price" shall have the meaning which it has under the commercial law applicable to the transaction.

B. The term "delivered price" shall mean a price at which a seller makes or offers to make delivery of a commodity to a buyer at any delivery point other than the seller's own place of business.

C. The term "absorb freight" shall mean to establish for any commodity at any delivery point a delivered price which, although as high as or higher than the seller's price for the same commodity at the point from which such commodity is shipped, is lower than the sum of the seller's price for such commodity at such point of shipment plus the actual cost to the seller for transportation of such commodity from such point of shipment to the delivery point or the average cost of transportation to the seller.

D. The term "the effect may be" shall mean that there is (4) ~~substantial and probative evidence~~ reasonable probability of the specified effect.

Passed the Senate June 1 (legislative day, May 23), 1949.

Attest: LESLIE L. BIFFLE,
Secretary.

Passed the House of Representatives with amendments July 7, 1949.

Attest: RALPH R. ROBERTS
Clerk.

APPENDIX C

FREIGHT RATES

Effective September 1, 1949

Articles of Iron or Steel Manufacture
Carload - Min. Wt. 40,000 lbs.
Rates in Cents Per 100 Pounds.

TO	FROM Buffalo, N. Y.
Boston, Mass.	63
New York, N.Y.	75
Portland, Me.	70
Portsmouth, N.H.	68
Albany, N.Y.	51
Binghamton, N.Y.	42
Laporte, Pa. 1/	42
Montpelier, Vt.	62
Concord, N.H.	63
Pittsfield, Mass.	53
	FROM Pittsburgh, Pa.
Mifflintown, Pa. 2/	42
Berkeley Springs, W. Va.	42
Franklin, W. Va.	40
Roanoke, Va.	62
Charlotte, N.C.	90
Greensboro, N.C.	87
	FROM Middletown, Ohio
Roanoke, Va.	62
Charlotte, N.C.	91
Greensboro, N.C.	77
	FROM Birmingham, Ala.
Charlotte, N.C.	72
Columbia, S.C.	67
Charleston, S.C.	76
Brunswick, Ga.	72
Savannah, Ga.	72
Jacksonville, Fla.	73
Miami, Fla.	106
Mobile, Ala.	51
New Orleans, La.	61
Galveston, Texas	112

1/ Nearest R.R. Station - Dushore, Pa.

2/ Nearest R.S. Station - Mifflin, Pa.

FREIGHT RATES (Contd.)

Rates in Cents per 100 Pounds

TO	FROM Sparrows Point, Md.
Boston, Mass.	62
New York, N.Y.	42
Portland, Me.	70
Portsmouth, N.H.	67
Albany, N.Y.	53
Laporte, Pa. 1/	44
Montpelier, Vt.	68
Concord, N.H.	67
Pittsfield, Mass.	54
Mifflintown, Pa. 2/	36
Berkeley Springs, W.Va.	34
Roanoke, Va.	48
Charlotte, N.C.	75
Greensboro, N.C.	67
Columbia, S.C.	80
Charleston, S.C.	83
	FROM Granite City, Ill.
Portland, Ore.	143
Seattle, Wash.	143
San Francisco, Calif.	143
Los Angeles, Calif.	143

Source: Traffic Department, Baltimore and Ohio Railroad

1/ Nearest R.R. Station - Dushore, Pa.

2/ Nearest R.R. Station - Mifflin, Pa.

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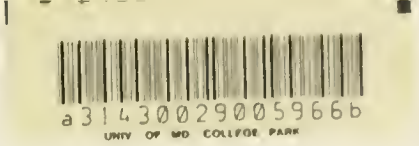
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